Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
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August 23, 2005

10:00 am - 1:30 pm

House Hearing Room A
Olympia

AGENDA

10:00 AM	**(1)**	**Approval of Minutes**
10:10 AM	**(2)**	**SCPP Goals** Matthew M. Smith, State Actuary
10:20 AM	**(3)**	**Gain-Sharing Subgroup Report** Representative Fromhold
10:30 AM	**(4)**	**Plan 1 Unfunded Liability - Options** Laura Harper, Senior Research Analyst - Legal
11:00 AM	**(5)**	**Disability Retirement - Background** Bob Baker, Senior Research Analyst
11:30 AM	**(6)**	**TRS Out-of-State Service Credit** - Laura Harper
NOON	**(7)**	**Age 70 1/2 and Opt In/Opt Out** - Bob Baker
12:30 PM	**(8)**	**Plan 3 Vesting** - Laura Harper
1:00 PM	**(9)**	**Public Testimony**
1:30 PM	**(9)**	**Adjourn**

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Select Committee on Pension Policy
2005 Meeting Schedule
(June 8, 2005)

June 20, 2005
10:00 AM - 6:30 PM
Senate Hearing Room 1
Orientation

June 21, 2005
9:30 AM - 12:30 PM
Senate Hearing Room 4

July 19, 2005
10:00 AM - 1:30 PM
House Hearing Room A

August 23, 2005
10:00 AM - 1:30 PM
House Hearing Room A

September 27, 2005
10:00 AM - 1:30 PM
House Hearing Room A

October 18, 2005
10:00 AM - 1:30 PM
House Hearing Room A

November 15, 2005
House Hearing Room A

December 13, 2005
House Hearing Room A

Select Committee on Pension Policy

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DRAFT MINUTES

July 19, 2005

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on July 19, 2005.

Committee members attending:

Representative Fromhold, Chair	Corky Mattingly
Elaine Banks	Doug Miller
Lois Clement	Victor Moore
Representative Crouse	Glenn Olson
Senator Fraser	Senator Pridemore
Leland Goeke	J. Pat Thompson
Robert Keller	Sandra J. Matheson

Representative Fromhold, Chair, called the meeting to order at 9:40 AM.

Representative Fromhold presented to Sandra Granger a Certificate of Appreciation in recognition of her outstanding service in Washington State Government, with particular respect to the Office of the State Actuary and the Select Committee on Pension Policy.

(1) Approval of Minutes

It was moved to approve the June 21, 2005 Draft Minutes. Seconded.

MOTION CARRIED

(2) Formation of Subgroups

Matt Smith, State Actuary, reviewed the "Gain-Sharing" and Public Safety" Subgroup members report.

It was moved to approve the Gain-Sharing and Public Safety Subgroup members. Seconded.

MOTION CARRIED

(3) SCPP Goals

Matt Smith, State Actuary, reviewed the "Priorities for Washington Pensions" report.

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(4) LEOFF 1 Benefit Cap

Bob Baker, Senior Research Analyst, reviewed the "LEOFF 1 Benefit Cap" report. Discussion followed.

The following people testified:
Senator Dale Brandland
Fred Corlis - Renton Firefighters of Washington
Jack Foster - Police Chief
David McEncham - Attorney
Kriss Hanson - Renton Firefighters
Bob Deines - Renton Firefighters
Jim Finke - Spokane Sheriffs Office
Jim Dornel - Bellevue Firefighters

(5) Plan 1 Unfunded Liability

Laura Harper, Senior Research Analyst Legal, presented the "Plan 1 Unfunded Liability" report.

(6) PSERS Eligibility

Bob Baker, Senior Research Analyst, presented the "PSERS Member Eligibility" report.

The following people testified:
Lynn Maier - Washington Public Employees Association
Craig Lian - IBEW
Ron Roy - IBEW
Roger Gregory - IBEW
Beverly Hermanson - Washington Federation of State Employees

Representative Fromhold announced the removal of the "Retirement Governance" item from the July 19th agenda.

(7) Post-retirement Employment Options Preview

Laura Harper, Senior Research Analyst Legal, reviewed the "Post-Retirement Employment Options Preview" report. Discussion followed.

The meeting adjourned at 1:15 PM.

Select Committee on Pension Policy

Goals for Washington State Public Pensions

July 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.

2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.

3. Age 65 Retirement: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.

4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.

5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:

    a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
    b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
    c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
    d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
    e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

Plan 1 Unfunded Liability Options

Laura Harper
Select Committee on Pension Policy

August 23, 2005

Procedural Context

- SCPP received initial briefing on the Plan 1 UAAL at its last meeting.
- Executive Committee recommended further exploration of several options for managing the Plan 1 UAAL.
- Today's presentation looks more closely at these options and some of the decisions that would be necessary for their implementation.

Plan 1 UAAL Status

- Current Plan 1 UAAL is $4 billion.
- 2003 AVR required $629.4 million for this biennium (with gain-sharing).
- UAAL payments were suspended for the prior and current biennia.
- Funding policy requires payment in full by June 30, 2024.

Current Funding Policy

- UAAL is the present value of Plan 1 benefits earned to date that are not covered by Plan assets.
- Current funding policy spreads the cost of the PERS Plan 1 UAAL among all PERS, SERS, and PSERS employers.
- The cost of the TRS 1 UAAL is spread among all TRS employers.

Relationship to Rates

- The UAAL payments are collected as a component of the basic employer contribution rate.
- The UAAL rate is added to the normal cost rate and this total rate is collected from all employers.
- The UAAL portion of projected rates is illustrated on pages 3-4 of Report.

Why manage the UAAL?

- The UAAL affects the magnitude of employer contribution rates, which are already projected to increase.
- If UAAL rates change significantly, so will the basic employer contribution rates.
- Deferring UAAL payments in the present results in higher future rates.
- Report illustrates effects of suspending payments on UAAL rates at page 12.

Ways to Manage the UAAL

- Pay more now / pay less later.
- Reduce volatility in UAAL payments.
  - These strategies are reflected in the options identified by SCPP on July 19, 2005 as needing further examination.
  - These strategies support the current funding policy of fully amortizing the Plan 1 UAAL by June 30, 2024.

Managing UAAL Rates

- Pay more now / pay less later.
  - *If revenue forecasts improve, reinstate payments as early as 2006-2007.*
- Reduce volatility in UAAL payments.
  - *Phase into a "step-up" of UAAL rates.*
  - *Establish a minimum contribution rate floor for the UAAL portion of basic rates.*
  - *Set a target funding ratio for the amortization schedule.*

Relationship to Larger Goals

- Contribution rate adequacy.
  - Adequate rates are necessary to pay benefits, especially when all members are retired.
- Contribution rate stability.
  - Stable rates improve investment returns.
  - Stable rates create predictability for employer budgets.
  - Stable rates help weather the storms created by variations in investment returns.

A Closer Look – Pay More Now

- Pay more now / pay less later.
  - *Report Option 2: If revenue forecasts improve, reinstate payments as early as 2006-2007.*

Pay More Now

- Related questions:
  - How much money is available?
  - Who pays?
  - How is the money collected?
  - When is it collected?
  - How is it used to reduce the UAAL?

How much money?

- Are revenue forecasts improving?
  - June revenue forecast revision for the State of Washington shows an increase of $450 million.
  - Additional forecasts will be made in September, November and February.
- Are local and other revenue sources also improving?
- What is the priority for pensions as it relates to other budget priorities?

Who pays?

- Spread payment across all employers or just those who can afford it?
- For example, if state revenue forecasts are more favorable than local, would the state subsidize local government employers' share of the UAAL in some way?
- Use split rates where feasible to allow credit to those who pay?

How is the Money Paid?

- Lump sum appropriation?
- Adjust UAAL contribution rates?

- Use existing funding policy and administrative structure or change existing policy and structure?

When is the Money Paid?

- All at once?
- Through an adjustment to short-term UAAL rates?
- As an adjustment to long-term UAAL rates?

How is it Used?

- Treat it as a catch-up for payments skipped, i.e. get back on track?
- Treat it as an early payment of future obligations under the current scheme [amend funding policy]?
- Treat it as a restructuring of the debt?
  - Use current funding policy / lower future payments.
  - Amend funding policy / change the payoff date instead.

Reduce Volatility

The following options go hand-in-hand and can be discussed as one strategy.

- *Report Option 4: Phase in a step-up of UAAL rates.**
- *Report Option 5: Establish a minimum UAAL contribution rate floor with a target funding ratio.*

*Level or fixed rates are not recommended as they could negatively impact rate adequacy.

Reduce Volatility

- Related Questions
  - How much extra cost is appropriate for a UAAL phase-in?
  - How long is the phase-in period?
  - Should the phase-in reflect a 2006-2007 UAAL payment?
  - Will the phase-in be with or without gain-sharing?
  - What is the appropriate floor and target funding ratio?

How Much is Phased In?

- Phase-in or step-up in rates involves a deferral of actuarially required payments.
- Interest must be paid at the actuarially assumed rate of return (8%).
- What is the policy: "bite the bullet" or "ease the pain"?
- Should there be a "catch-up" within the phase-in period so phase-in pays for itself?

How Long is the Phase-In?

- 4 or 6 years (2 or 3 biennia)?
- Is goal to reach the projected long-term actuarially required rate or to simply approach it by a reasonable amount?

With '06- '07 payments?

- Phase-in with minimum floor would be more affordable if UAAL payments are made in the 2006-2007 fiscal year.
- 2006-2007 payments could help offset phase-in costs.
- 2006-2007 payments could result in a lower minimum floor.*

  *Minimum floor is the rate below which UAAL payment would never drop.

With or Without Gain-sharing?

- Plan 1 UAAL is a different number with and without gain-sharing.
  - If gain-sharing continues, UAAL rates will be higher.
  - If gain-sharing is traded for other benefits of lesser value, UAAL rates will be reduced.
  - If gain-sharing is repealed, UAAL rates will be even lower.

Setting the Minimum Floor

- Requires actuarial projections to payoff date of June 30, 2024 according to current statutory assumptions.
- Requires some judgment on the part of the State Actuary.
  - Floor avoids artificially low rates in response to short-term gains.
  - Floor also avoids the steep increases that would follow a period of artificially low rates.

Setting Target Funded Ratio

- Again, projections and judgment are required.
- A target funded ratio increases the likelihood that once amortized, the Plan 1 UAAL will not re-emerge.
- Minimum floor stays in effect until the actuarial value of assets equals the target funded ratio or the amortization date, whichever comes first.

Bringing it all home....

- What is the SCPP role?
  - Do you wish to play a role in fashioning a response to a more favorable revenue picture?
  - Do you wish to play a role in contribution rate setting?
- SCPP as goal setter and communicator of policies or SCPP as source for very specific proposals with time frames and dollar amounts?

Examples - Roles

- SCPP as goal setter and communicator of policies:
  - Send resolution or recommendation letter re: strategies to fiscal chairs.
  - Articulate reasons for strategies, describe policy implications and give examples and/or models.
  - Leave details and dollar amounts to budget writers and fiscal committees.

Examples - Roles

- SCPP as source for very specific proposals.
  - Would require answering many of the questions raised today in great detail.
  - Would require making this issue a high priority for the interim.
  - Would result in draft legislation that would have significant budgetary impacts.
  - Would require close coordination with fiscal leadership to be successful.

Next Steps

- Give direction to staff in terms of the role the committee would like to play and the priority of this issue for the 2005 interim.
- Make recommendations or develop specific proposals, keeping in mind legislative schedules.

Plan 1 Unfunded Liability

(August 1, 2005)

Issue

The Unfunded Actuarial Accrued Liability for the PERS and TRS Plans 1 (Plan 1 UAAL) continues to be a significant obligation for all employers in PERS, TRS, SERS, and (effective July 1, 2006) PSERS. The current funding methodology and policies for addressing the Plan 1 UAAL are contributing to courses of action that are causing this unfunded liability to grow. As the Plan 1 UAAL grows, it becomes an increasingly larger portion of employer contribution rates - rates that are already projected to climb steeply in the future. This report will examine the Plan 1 UAAL and explore options for managing it in the future.

Staff

Laura C. Harper, Senior Research Analyst/Legal
360-586-7616

Members Impacted

Members are not directly impacted by the Plan 1 UAAL, as their contribution rates do not include payments for this unfunded liability. However, to the extent that the Plan 1 UAAL affects benefit security and future benefit improvements in the affected plans, there is an effect on members.

Current Situation

Current Funding Methodology

The current funding policy for paying the UAAL is twofold: 1) spread the cost out over time - that is, pay the UAAL over an amortization period that extends through June 30, 2024; and 2) spread the cost over more employers - that is all PERS, TRS, SERS, and (starting July 1, 2006) PSERS employers of members of all the plans within those systems (Plans 1, 2, and 3), including projected new entrants for the systems in the future.

Magnitude of UAAL

According to the 2003 Actuarial Valuation Report (AVR), the PERS and TRS Plans 1 have a combined UAAL of approximately **$4 billion**, with the UAAL for PERS 1 at $2.620 billion and the UAAL for TRS 1 at $1.416 billion. LEOFF 1 is currently running a negative UAAL, which is also referred to as a "surplus." The amount of the UAAL will vary from one actuarial valuation to the next. The most significant factor in this variation is investment returns.

Based on the most recent actuarial valuation, the employer contribution rates (expressed as a level percentage of pay) and schedule of payments required in the 2005-2007 biennium to amortize the Plan 1 UAAL are:

System	UAAL rate* 2005-2007	GF-S Contributions**	Total Employer Contributions
PERS	2.10%	$67.6	$338.0
TRS***	2.80%	139.5	231.7
SERS	2.10%	23.3	59.7
Total		$230.4	$629.4

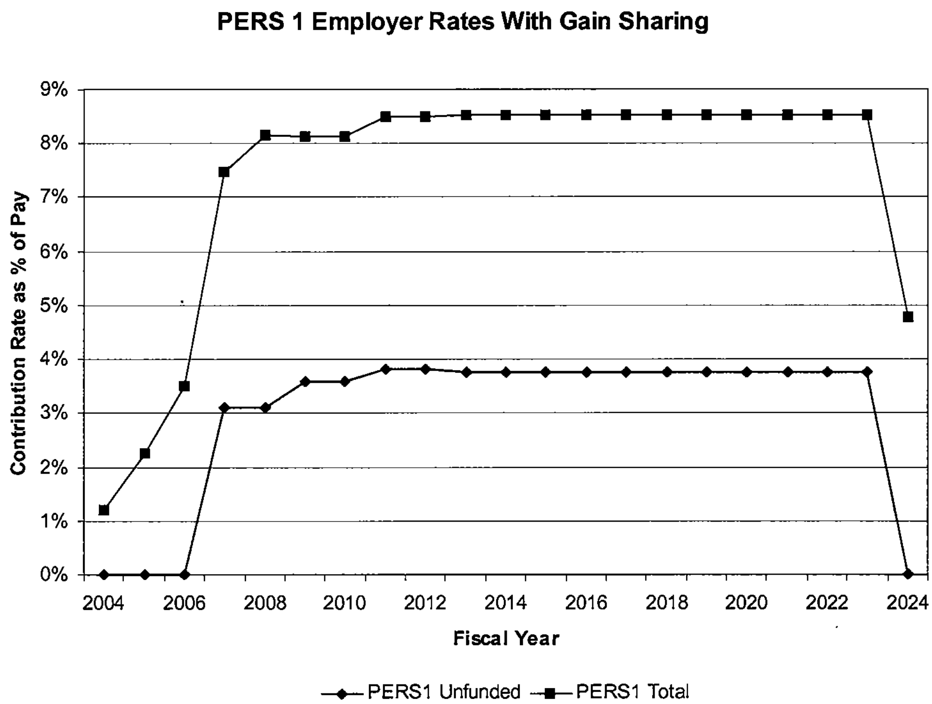
**Rates and funds include the cost of future gain-sharing benefits. Rates in effect for two-year period beginning 7/1/2005 for PERS, 9/1/2005 for TRS and SERS.*
***Dollars are in millions.*
****Includes an additional 0.01 percent for the non-automatic post-retirement benefit increase provided under Chapter 85, Laws of 2004.*

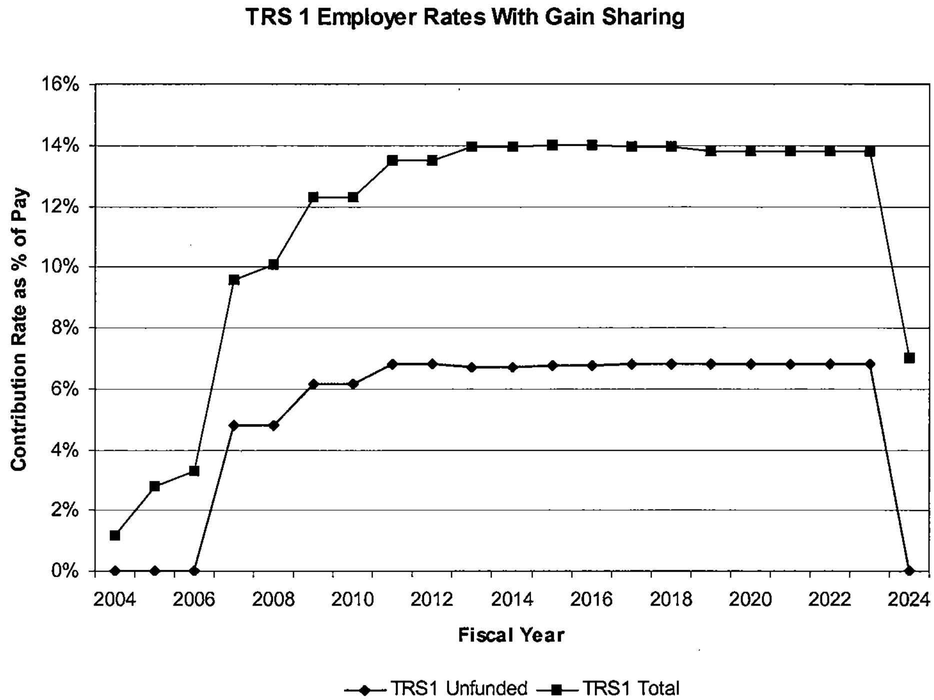
Role of Plan 1 UAAL in Projected Employer Contribution Rates

The Plan 1 UAAL payments represent a significant component of the required employer contribution rates. Currently, employer and state contribution rates must be the "level" percentages of pay that are required, not only to fully amortize the unfunded liability in PERS 1 and TRS 1, but also to fully fund the Plans 2/3.

Contribution rates for all affected systems are projected to increase significantly over the next several biennia. By the 2009 fiscal year it will cost employers more than 6 percent of payroll just to fund the TRS 1 UAAL alone. In addition, basic contribution rates must cover the normal cost of benefits, meaning that employer rates are projected to climb to ultimate levels of about 8 percent for PERS, 14 percent for TRS, and 11 percent for SERS.

The following graphs illustrate the role of the Plan 1 UAAL in projected basic employer contribution rates.





Current Status of Actuarially Required Payments

The legislature suspended payments for the UAAL in the current biennium (2005-2007). Payments were also suspended during the previous biennium (2003-2005). Absent this legislation, regular UAAL payments are scheduled to resume in the upcoming biennium (2007-2009).

There will be a long-term increase in the UAAL contribution rates as a result of this biennium's two-year suspension. The PERS UAAL rate, payable by PERS, SERS, and PSERS employers, will increase 0.25 percent and the TRS UAAL rate will increase 0.30 percent beginning in the 2007-2009 biennium. The fiscal budget determinations below illustrate the cost in dollars of suspending the Plan 1 UAAL in the current biennium.

Change in Plan 1 UAAL Rates from Suspension*

Biennium	PERS	TRS	SERS
2005-2007	(1.70%)	(2.00%)	(1.70%)
2007-2009 & thereafter	0.25%	0.30%	0.25%

**Excluding the cost of future gain-sharing benefits.*

Fiscal Budget Determinations for Suspending UAAL Payments in 2005-2007:

As a result of the higher (lower) required contribution rate, the increase (decrease) in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2007				
State:				
General Fund	($54.7)	($99.6)	($18.9)	($173.2)
Non-General Fund	($90.3)	$0.0	$0.0	($90.3)
Total State	**($145.0)**	**($99.6)**	**($18.9)**	**($263.5)**
Local Government	($128.6)	($65.9)	($29.5)	($224.0)
Total Employer	($273.6)	($165.5)	($48.4)	($487.5)
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	$9.0	$18.1	$1.8	$28.9
Non-General Fund	$14.8	$0.0	$0.0	$14.8
Total State	**$23.8**	**$18.1**	**$1.8**	**$43.7**
Local Government	$21.2	$9.0	$2.5	$32.7
Total Employer	$45.0	$27.1	$4.3	$76.4
Total Employee	$0.0	$0.0	$0.0	$0.0
2005-2030				
State:				
General Fund	$66.8	$141.3	$25.4	$233.5
Non-General Fund	$109.9	$0.0	$0.0	$109.9
Total State	**$176.7**	**$141.3**	**$25.4**	**$343.4**
Local Government	$156.7	$54.4	$36.9	$248.0
Total Employer	$333.4	$195.7	$62.3	$591.4
Total Employee	$0.0	$0.0	$0.0	$0.0

Another way of examining the cost to all employers of suspending the Plan 1 UAAL payment in the current biennium is to use a "Truth in Lending" format that discloses the amount financed, the applicable interest percentage rate, and the dollars paid over the life of the "loan."

TRUTH-IN-LENDING DISCLOSURE FOR SUSPENSION OF PLAN 1 UAAL PAYMENT IN THE CURRENT BIENNIUM (2005-2007)

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments
The cost of the "credit" as a yearly rate	The dollar amount the credit will cost all employers	The amount of credit provided (i.e. amount suspended in current biennium)	The amount all employers will have paid after making all the scheduled payments
8 percent	**$591.4 million**	**$487.5 million**	**$1.0789 billion**

History

How did PERS and TRS 1, which were closed in 1977, accumulate such a large UAAL? A combination of under-funding coupled with significant benefit improvements has, over time, led to this unfunded liability. Market returns have also played a role. Finally, changes in funding policy have steered the system toward contribution rate reductions which have amplified the rate increases that ultimately must follow.

Changes in Plan 1 UAAL Over Time

The following table is a ten-year history of the Plan 1 UAAL for PERS and TRS. This table illustrates how the Plan 1 UAAL can ebb and flow over time.

AVR*	PERS 1	TRS 1	TOTAL**
1994	$2,684	$2,720	$5,404
1995	2,993	2,850	5,843
1996	2,640	2,593	5,233
1997	1,659	1,547	3,206
1998	1,506	1,234	2,740
1999	809	663	1,472
2000	227	4	231
2001	301	(22)	279
2002	1,366	574	1,940
2003	2,620	1,416	4,036

**Actuarial Valuation Report*

***Dollars in millions*

Under-Funding

Prior to enactment of the Pension Funding Reform Act in 1989, contributions to the Plans 1 were made on an ad hoc basis. For the nine biennia (18 years) extending from 1973 through 1991, the full funding requirements of PERS, TRS, and LEOFF were satisfied by the legislature only once. In the remaining years, actual contributions ranged from a low of 60 percent of the required amount in 1973-75 to a high of 95 percent in 1979-81.

After passage of the Pension Funding Reform Act, the legislature embarked upon a twelve-year period (1991-2003) of funding 100 percent of the actuarially required contributions. However, in the past and current biennia the legislature again created a gap between the actuarially required contributions and the amounts actually appropriated for expenditure, funding the retirement systems at the 70 percent level for 2003-2005.

Plan 1 Benefit Improvements

In 1972 for PERS and 1973 for TRS, the benefit formula for the Plans 1 was increased from a 1 percent to a 2 percent formula. There is no fiscal note to access for the legislation effecting this benefit change, as the Office of the State Actuary did not exist at that time. However, one can assume that this benefit improvement significantly increased the cost of retirement benefits in the Plans 1.

In 1989, the same year that the Pension Reform Act was enacted, the Plan 1 Age-65 COLA also became law. This was the first *automatic* cost-of-living adjustment granted in the PERS/TRS systems. Another significant benefit improvement occurred in 1995, when the Uniform COLA design replaced the Plan 1 Age 65 COLA.

The Uniform Increase is a dollar amount, which increases by at least 3 percent each year, multiplied by the members' total years of service; the product is then added to each member's monthly retirement benefit each year. As of July 1, 2005, the Uniform Increase Amount is $1.25. A retiree who was at least age 66 at retirement with 30 years of service will receive a monthly increase of $37.50. In 1995, enactment of the Uniform COLA legislation was projected to increase the PERS and TRS Plan 1 unfunded liability by roughly $300 million (present value at 1995), and the 25-year "total state" cost of the benefit was estimated at $612 million. Today, according to the 2003 Actuarial Valuation Report, the Uniform increase represents a $2.2 billion actuarial liability for the Plans 1.

Other Plan 1 benefit improvements have included early retirement windows in 1980, 1982, 1992, and 1993. Early retirement windows typically provide short-term salary savings, but add long-term liability to the pension system, as the retirement benefits for those retiring early are received over a longer period of time.

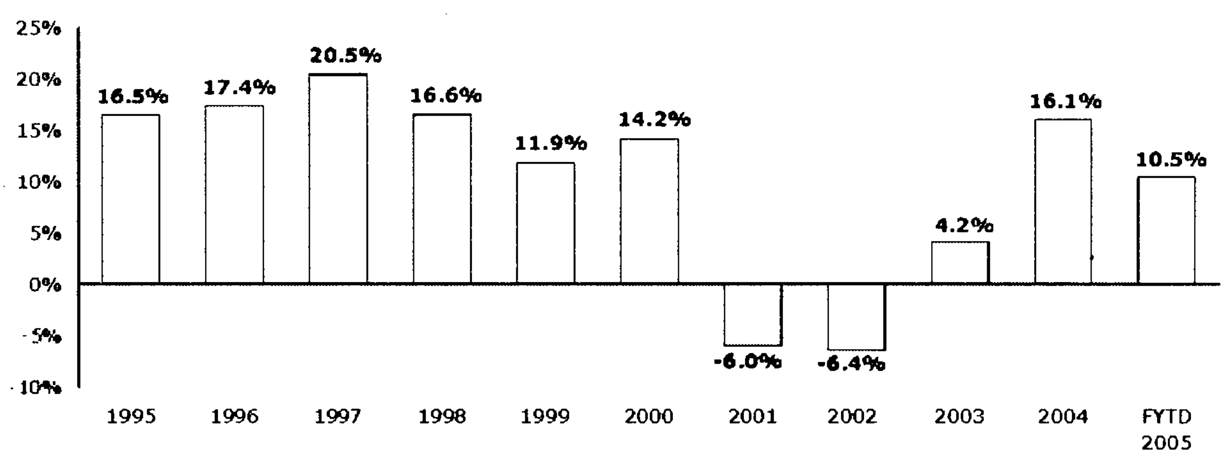
Also in 1998, Plan 1 gain-sharing was enacted. For the PERS and TRS Plans 1, one-half of the gain-sharing amounts allocated in 1998 and 2000 resulted in increases to the "Annual Increase Amount" used in calculating the Uniform COLA. These benefit increases were permanent with a cost totaling $924 million. The other half of the Plan 1 gain-sharing allocations - another $924 million - was used to help draw down the Plan 1 amortization date. In 2000, as the result of gain-sharing, the Plan 1 UAAL payoff date was moved back to 2016. In 2001, however, the Plan 1 UAAL payoff date was extended back out to 2024, the same as it was prior to gain-sharing.

Market Returns

Market returns have also played a significant role in the magnitude and movement of the Plan 1 UAAL over time. When market experience is more favorable than the actuarial assumed rate of investment returns (8 percent for the Washington State Retirement Systems), unfunded plan liabilities are reduced. When market experience is less favorable, unfunded plan liabilities increase.

The State Investment Board reports the following annual performance for assets under management over the past ten years:

SIB Annual Performance - Fiscal Years End June 30



Changes in Funding Policy

Finally, changes in funding policy over the last 12 years have contributed to the movement and magnitude of the Plan 1 UAAL over time. Due to circumstances in the market, these changes steered the system toward contribution rate reductions in each instance, leading to both premature recognition of investment gains and also to delayed recognition of investment losses. The changes also amplified the future rate increases that must ultimately follow to meet the funding obligations by the required payoff date.

The funding policy changes that contributed to increasing the UAAL in the later years of the amortization schedule (i.e. "back-loading" the payoff) included:

- 1993 change from a six-year contribution rate-setting cycle to a two-year cycle;
- 2001 change from a three- to a four-year asset smoothing period;
- 2003 change from a four- up to an eight-year asset smoothing period; and
- annual adoption of contribution rate decreases in certain "off-cycle" years.

To summarize, the history of the Plan 1 UAAL shows a multitude of factors contributing to its fluctuating size over time. These include under-funding, benefit improvements, investment returns, and changes in funding policy. It would be useful to be able to break the UAAL into a convenient pie chart showing how much of today's unfunded liability is attributable to each factor. However, this has not been possible because of the complexity of the factors and the difficulty in quantifying each one of them in today's dollars (e.g. costs in 1995 are not comparable to costs today). In any event, this report illustrates that the Plan 1 UAAL is not a fixed amount. Instead it fluctuates in every funding cycle and thus is a moving target.

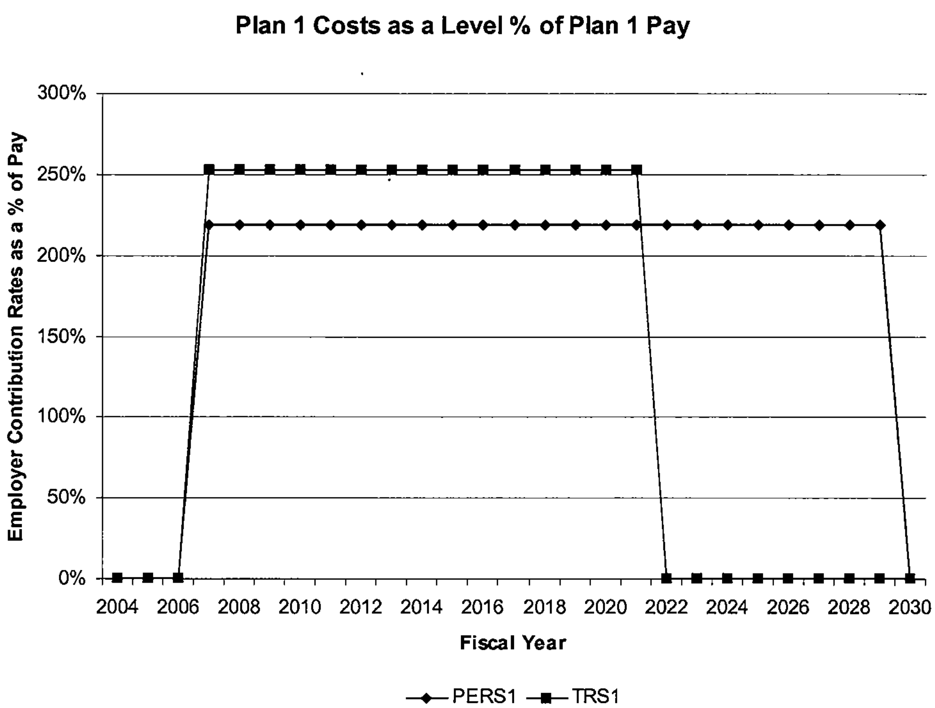
Policy Analysis

Intergenerational Equity

The statutory policy for intergenerational equity is codified within the actuarial funding chapter of the Revised Code of Washington. RCW 41.45.010(4) establishes the goal of funding, to the extent feasible, benefit increases for plan 1 members over the working lives of those members. The reason for this policy is so that the benefits are paid by the taxpayers who receive the benefits of those members' services.

The current funding methodology is inconsistent with this policy. The Plans 1 were closed in 1977. Now there are roughly three retirees for every active member in the Plans 1. The average age for active Plan 1 members is 55, the average number of years of service for PERS 1 is 21.4 and the average number of years service for TRS 1 is 23.9. There will be virtually no active members in the Plans 1 when the UAAL is paid off, assuming the legislature stays on track to fully pay the UAAL by June 30, 2024.

The following graph illustrates the magnitude of Plan 1 employer contribution rates that would be necessary if all remaining Plan 1 costs were spread over the working lifetimes of the remaining Plan 1 members. When the plans are funded over Plan 1 payroll, the PERS employer contribution rate jumps from about 3.0 percent to over 200 percent and the TRS rate increases from about 5.5 percent to over 250 percent.



Socializing the Cost

The Plan 1 UAAL is paid by employers (not members) as specified in Chapter 41.45 RCW. The Plan 1 UAAL costs have been considered too excessive to be absorbed by Plan 1 employers alone, as they would result in contribution rate increases that would be impossible for the Plan 1 employers to absorb. For this reason, the Plan 1 costs have been socialized, or spread among all PERS, TRS, SERS, and (starting July 1, 2006) PSERS employers. Thus, all employers pay a total contribution rate equal to the Plan 2/3 normal cost plus the Plan 1 UAAL rate.

The consequence of socializing the costs of the Plan 1 UAAL is that all employers pay the same contribution rates, even though the normal cost of the Plans 2/3 is less than the normal cost in the Plans 1. Contribution rates are uniform for employers regardless of the plan membership of their employees (with the exception of LEOFF). Shifting the UAAL costs to other plans is not a common actuarial funding method, but this strategy has reduced Plan 1 contribution rates to something employers could manage.

The advantage of this approach is that a workable plan was created to accommodate the payoff schedule for the Plan 1 UAAL. The disadvantage is that Plan 2/3 employers are paying the costs for benefits to members that never render services to them. Socializing the Plan 1 UAAL costs creates an issue of parity between the plans. It also contributes to obscuring the true cost of the Plans 1 and any proposed benefit improvements for its members.

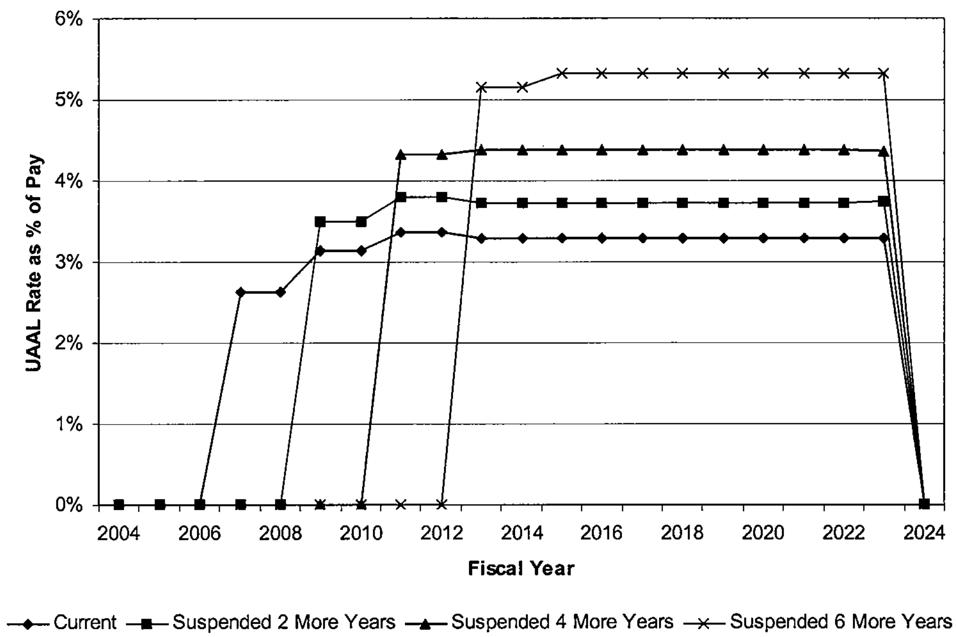
Full Amortization by June 30, 2024

The statutory funding policy for paying off the UAAL in the Plans 1 is also codified as a goal within the actuarial funding chapter. As shown above, adopting UAAL rates that would support intergenerational equity may not be realistic. This helps to explain why RCW 41.45.010(2) states that the funding process for the state retirement systems is intended to fully amortize the total Plan 1 costs by not later than June 30, 2024. This goal was a compromise that was set up to help close a funding gap that had been long-standing. The cost was made more manageable by spreading it out over time.

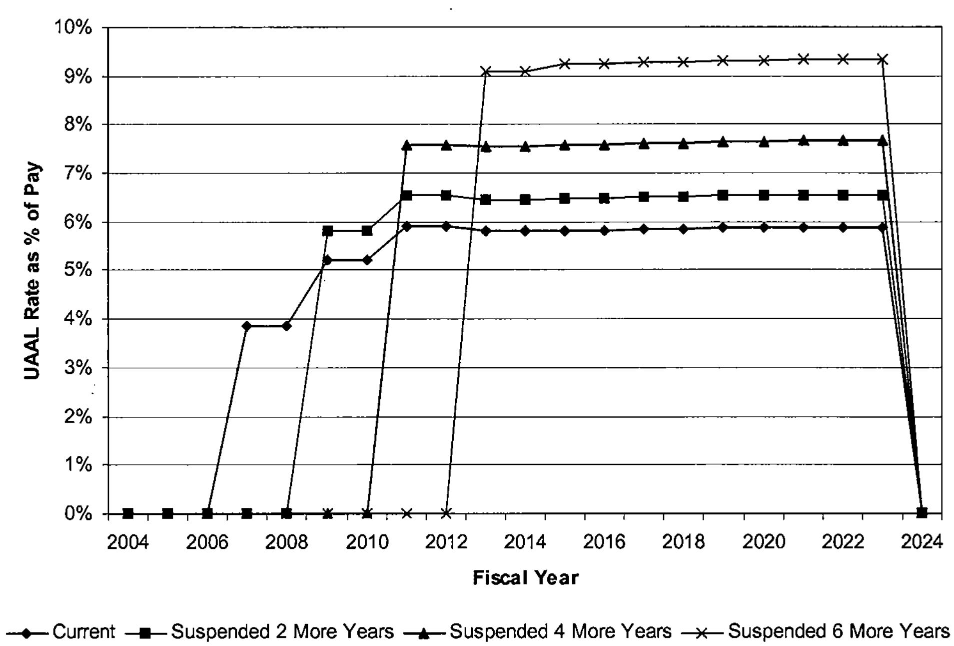
Spreading the Plan 1 UAAL costs out over time makes it appear that Plan 1 benefit increases have less effect on employer contribution rates when in fact, if the legislature used the same funding methodology that it applies to the Plans 2/3, the costs of benefit improvements would alter contribution rates much more quickly and therefore, more significantly.

It should be noted that payment of the Plan 1 UAAL has already been back loaded, meaning that UAAL payments must increase over time to reach the deadline of June 30, 2024. The following are the projected contribution rates necessary to fully amortize the total Plan 1 costs by not later than June 30, 2024, *excluding gain-sharing*, and skipping one or more payments as noted:

PERS 1 Required Payment for UAAL Without Gain Sharing

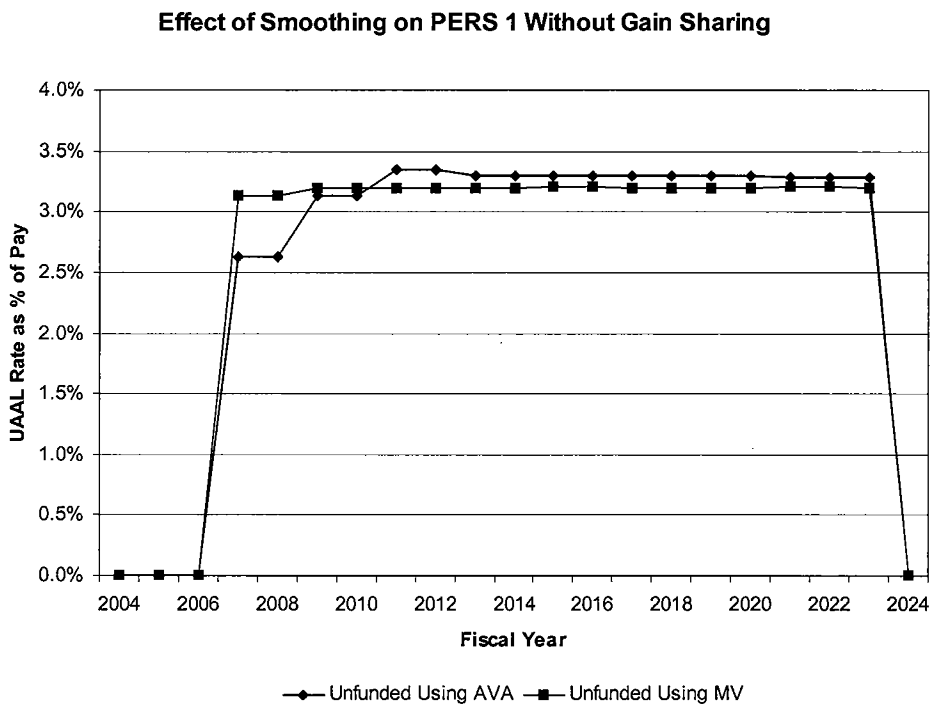


TRS 1 Required Payment for UAAL Without Gain Sharing

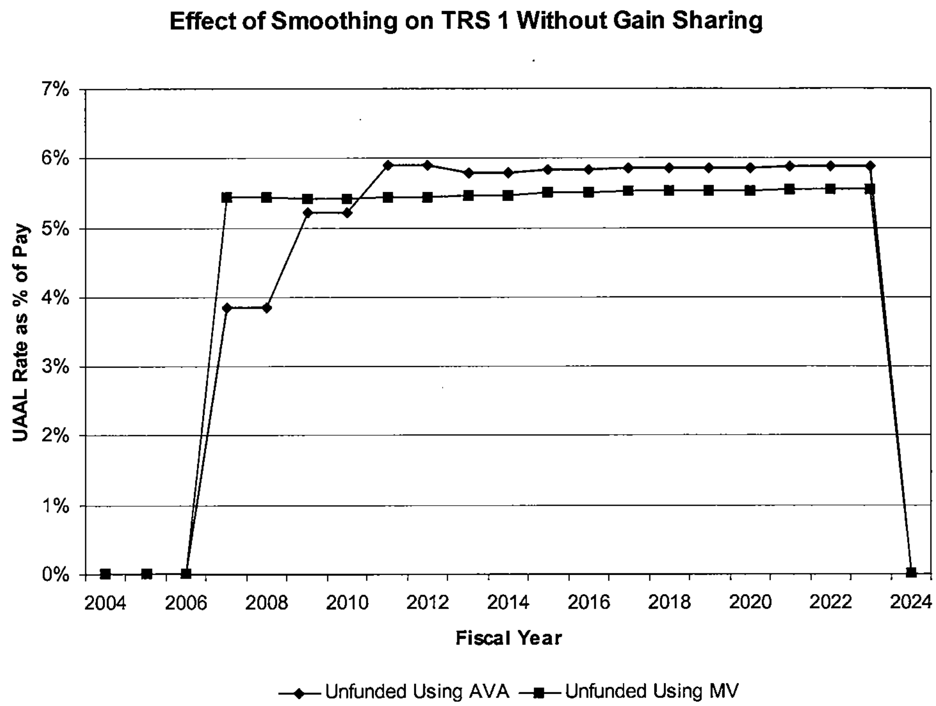


Effects of Asset Smoothing

Asset smoothing is a method for deferring large increases or decreases in asset returns so as to avoid volatility in contribution rates. In Washington we use an asset smoothing period of up to eight years with a market value corridor of 30 percent. In the short term, asset smoothing may contribute to a dynamic that temporarily obscures the unfunded costs of the Plans 1. This in turn may affect the willingness to improve Plan 1 benefits, as it may alter the short-term perceptions of the magnitude of the Plan 1 UAAL. As the graphs illustrate, assuming a static 8 percent annual investment return for all future years, the asset smoothing technique makes the step-up in required UAAL contribution rates more gradual for the first several years.



AVA = Actuarial Value of Assets
MV = Market Value of Assets



AVA = Actuarial Value of Assets
MV = Market Value of Assets

Economic Trends/Assumptions

The time frame that remains to address the Plan 1 UAAL payoff is now less than twenty years. The graphs above illustrate how payments are back-loaded, meaning that the required contribution rates are significantly more in the future than what employers are currently used to paying. This fact becomes important to the UAAL payoff commitment, as required contribution rates become more sensitive to assumption changes and experience gains and losses in the final years of payoff.

It is useful to consider the effects of possible changes in economic trends and assumptions between now and the payoff date to understand how required UAAL contribution rates could be affected. For example, if the assumed investment rate of return of 8 percent were not achieved over the next 19 years, and instead the fund returned 7.75 percent for the period, PERS required contribution rates would increase by 0.19 percent and TRS rates would increase by 0.33 percent for the period (without gain-sharing). Another way of considering the role of investment returns is to look at the returns that would be required to avoid increasing UAAL rates between now and the payoff date. The required investment returns to achieve that goal (for the UAAL only) would be about 12 percent per year throughout the current amortization period.

Another key assumption in the projected UAAL payoff schedule is the assumption that future active membership will grow at 1.25 percent per year (0.9 percent in TRS). A no-membership growth assumption would require an increase in required contribution rates of 0.31 percent for PERS and 0.33 percent for TRS (again, without gain-sharing). These scenarios illustrate how short-term changes in long-term assumptions can affect contribution rates.

Long-term vs. Short-term Approaches

In setting its goals for actuarial funding of the state retirement systems, the legislature stated its intent in RCW 41.45.010 to provide a dependable and systematic process for funding the benefits provided to members and retirees. Recent contribution holidays and suspension of payments for the Plan 1 UAAL have, however, prevented the build-up of any temporary asset reserve that could have accumulated to offset the investment losses of several years ago, which are still being recognized under the current asset smoothing method.

Compounding the problem has been the use of annual actuarial valuation results to justify both reductions in contribution rates and suspension of liability payments. An actuarial valuation report is merely a snapshot in time. The snapshot approach can work well for budget writers, who tend to focus on the needs of the upcoming biennium. The short-term focus, however, ignores the long-term consequences of such actions to pension system funding and tends to threaten contribution rate adequacy over the long-term. Inadequate contribution rates can, in turn, undermine contribution rate stability, bond ratings, and ultimately, benefit security for plan members.

Benefit security is particularly important in closed plans. With few actives to support new contributions to the system and with more and more benefits being paid to retirees, adequate and secure funds must be available to pay promised benefits. This is especially important in states like Washington, which recognize vested pension benefits as contractual obligations of the state.

Public defined benefit plans are designed to be funded over the long-term. In fact, it is the long-term approach that makes these plans cost-effective for taxpayers. A long-term funding approach allows for the pooling and spreading of risks, resulting in greater economic efficiencies and economies of scale for taxpayers. Short-term interruptions in required funding create costs that must be picked up in the future. This can be referred to as borrowing from the future to pay for the present, or "pay less now - pay more later." Short-term under-funding undermines not only the economic engine of public pension funds, but also violates the legislative funding goal of intergenerational equity, a doctrine that is grounded in concepts of fairness to successive generations of taxpayers.

Relationship to Other Plan 1 Goals

Given the current legislative inability to fully fund the retirement systems, one could say that there is "not enough money to go around." That being the case, retiring the Plan 1 UAAL is at odds with proposals that increase Plan 1 benefit costs. When there is not enough money to go around, policy makers are forced to prioritize their goals and decide which is more important.

There is at least one major Plan 1 goal that is at odds with the goal of paying off the Plan 1 UAAL by 2024. Increasing Plan 1 retiree purchasing power has been a theme before the SCPP and, before that, the JCPP for many years. Related to this goal is the role of gain-sharing as a mechanism for increasing Plan 1 adjustments to retirement benefits.

Examples of Approaches Used to Address Pension Funding Concerns

Increasing Contributions

Starting July 1, 2005, employer and member contributions for New Mexico's Educational Retirement System will increase according to a four-year phase-in plan. Employer contributions will increase to 13.9 percent from 8.65 percent prior to the phase-in. Member contributions will increase from 7.65 percent to 7.9 percent over the four-year period.[1]

In Montana, bills providing actuarially necessary employer contribution increases for four retirement plans, phased in over four to six years, were tabled. Solutions may be proposed in a special legislative session at the end of the calendar year. [2]

Benefit Reductions and New Tiers

Oregon's 2003 reform legislation was introduced to save the retirement system money by altering the benefit structure. The resulting plan amendments were challenged in the courts. Provisions affecting new employees in the new tiers were upheld, but plan amendments affecting benefits for existing employees and retirees were struck down as a violation of vested contractual rights. As of April 2005, Oregon's actuaries estimated that the cost of the Oregon Supreme Court's final decision in the case would cost 2.7 percent of pay. The projected total employer contribution rate for July 1, 2007, is expected to be about 24 percent of pay (assuming the use of about $1.8 billion in reserves for pension fund purposes).[3]

The DB/DC Debate

The California governor's plan to place a defined contribution (DC) plan for public employees on the ballot was delayed, largely in response to pressure from public safety officers that the new plan did not offer disability or death benefits. The proposed employer defined contribution rates were lower than the current normal cost contributions employers pay for the defined benefit plan. Savings were projected to be up to $1 billion in annual retirement costs after the plan is fully phased-in for all public employees. Such a phase-in could take several decades.[4]

West Virginia closed the Teachers' DC Retirement System to newly hired personnel and returned to a defined benefit (DB) plan because it is cheaper to run in the long-term. Existing members of the DC plan will elect whether to continue operating the DC plan or whether it should be merged with the DB plan. The bill also mandates an education program for members of the DC plan.[5]

Alaska's 2005 Retirement Security Act places new hires in a DC plan.[6]

Pension Obligation Bonds

In 1997, New Jersey borrowed $2.7 billion in pension obligation bonds to fill a gap in its public pension plan funding. These bonds, sometimes called POBs, are general obligation debt much like any government borrowing, but they are issued in order to put the proceeds into the pension funds instead of into the general government coffers. The bond issuer makes a bet that the borrowed money can be invested to earn more than the interest rate that the bonds must pay.

Because New Jersey's pension obligation bonds were issued only a few years before a big drop in the stock market, the Garden State's bond issue has become a cautionary tale of how wrong that bet can go. Since 1997, New Jersey's POBs have averaged an annual return well below the 7.6 percent they owe in interest. The borrowing, which was intended to boost the pension plans' assets, has instead become a painful multiplier of the state's existing pension problems. Currently facing a pension deficit of at least $25 billion, the state will have to contribute more than $1 billion to its pension fund next year, up from $100 million this year.[7]

In West Virginia, voters recently rejected a plan to sell as much as $5.5 billion of bonds to help pay for unfunded pension liabilities. Under a state Supreme Court order, West Virginia has to close its pension funding gap by 2034.[8]

Pursuant to authority granted to it by legislation passed in 2004, California issued more than $2 billion in POBs last year.[9]

According to Bloomberg.com, the largest-ever pension obligation bond sale was by Illinois in June, 2003, when the state sold $10 billion worth.[10]

Rate Stabilization

CalPERS is considering strategies to stabilize contribution rates. These strategies do not focus on rate adequacy, but rather on keeping contribution rates at a relatively constant percentage of pay over time. CalPERS has been looking at a longer asset smoothing period (15 years), longer amortization periods for annual non-investment gains/losses (30 years rolling), minimum contributions for plans in surplus, and a pension stabilization account that could function as a "rainy day" account.[11]

Federal Policy Trends for "At risk" Plans

In the wake of the United Airlines pension plan default, H.R. 2830 (the Pension Protection Act) was recently introduced at the federal level to reform current pension funding rules and to reduce the number of under-funded private pension plans. The bill would also increase the premiums employers pay to the Pension Benefit Guarantee Corporation from $19 to $30 per plan participant.

The bill calls for more aggressive funding targets, shorter amortization periods for shortfalls, freezes on benefit improvements for at-risk plans, and increased disclosure to plan participants and beneficiaries. Plans with more retirees, older workers, more lump sum payments, and shrinking workforces would be required to make greater pension contributions than plans with fewer retirees, younger workers, less lump sum payments, and growing workforces. H.R. 2830 applies to both single and multi-employer plans in the private sector.[12]

Increased disclosure is also a private sector concern. In a report released on June 15, 2005, the SEC urged the Financial Accounting Standards Board (FASB) to reconsider its accounting guidance for private sector defined benefit plans and other post-retirement plans. The report maintains that current pension accounting rules that allow for a complex series of asset smoothing mechanisms make financial statements difficult to understand and less transparent.[13]

The national discussion on pension reform is moving toward tighter funding rules and increased disclosure. These reforms would avoid practices which "hide" pension costs, help provide benefit stability and improve long-term management of pension funding.

Questions for Policymakers

- Can employers afford more increases in the required projected contribution rates for the Plan 1 UAAL?
- If Plan 1 liabilities are increased by Plan 1 benefit enhancements that are not supported by existing contribution rates, is it fair to ask future taxpayers and Plan 2/3 employers to pay for them?
- Are there ways to manage the Plan 1 UAAL and still provide ongoing reasonable benefit enhancements for Plan 1 members and retirees?
- How can benefit security be protected in the final years of the plan?
- Would employers prefer to avoid unexpected increases in contribution rates and the end of the UAAL amortization period?

Options for Managing the Plan 1 UAAL

Option 1: *Stop suspending UAAL payments.*

A policy to avoid suspending future Plan 1 UAAL payments could be codified into the actuarial funding chapter along with other funding policies.

Option 2: *If revenue forecasts improve, resume payments as early as the next year of this biennium.*

This option could lead to a "split rate" in PERS for state vs. local governments, since state and local revenues come from different sources. A split rate would affect accounting and administration details.

Option 3: *Change the funding policy to price Plan 1 benefit improvements more accurately.*

For actives, this option would spread the cost over remaining payroll and for retirees, over their remaining lifetimes. This approach would be more consistent with existing policy for intergenerational equity.

Option 4: *Phase in a step-up of UAAL rates, then level rates out so as to retire the UAAL earlier than (or no later than) June 30, 2024.*

After a phased step-up in UAAL rates, a level funding requirement could be established to pay for the Plan 1 UAAL in a timely manner.

Option 5: *Establish a minium contribution rate floor with a target funding ratio.*

A minimum employer contribution could be established as part of the basic employer contribution that would be allocated for the sole purpose of amortizing the Plan 1 UAAL. This minimum contribution would remain effective until the actuarial value of assets equals a target percentage (e.g. 125 percent) of the actuarial accrued liability for each plan or the amortization date, whichever comes first.

Executive Committee Recommendation

The SCPP's initial briefing on this issue was July 19, 2005. The Executive Committee recommended that Options 2, 4, and 5 be brought back for consideration at the August 23, 2005, meeting.

Conclusion

The Plan 1 UAAL continues to be a significant pension liability for the Washington State Retirement System employers. This report is presented as a reminder of the role this liability plays in pension funding and pension funding policy. Also, to the extent that future pension dollars must continue to be used to pay off this liability, there are significant implications for the viability of pending and future proposals to improve Plan 1 benefits. As the payoff date approaches, the consequences of avoiding or postponing this liability are magnified and the effects on benefit security will become more pronounced.

Endnotes

1. http://www.era.state.nm.us/Legislative_News/Legislation_2005/legislation_2005.htm
2. http://data.opi.state.mt.us/bills/2005/billhtml/HB0148.htm and http://data.opi.state.mt.us/bills/2005/billhtml/HB0181.htm
3. http://oregon.gov/PERS/
4. http://www.igs.berkeley.edu/library/htPensionReform.html#Topic6
5. http://news-register.net/news/story/0621202005_new02.asp
6. http://www.akrepublicans.org/stedman/24/news/sted20050411 01p.php
7. http://businessweek.com/magazine/content/05_24/b3937088.htm
8. http://www.bloomberg.com/apps/news?pid=71000001&refer=us&sid=aQtQETWakQHY
9. http://www.metnews.com/articles/jarv121203.htm
10. http://www.taxpayfedil.org/oct03.htm
11. http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2005/april/stabilization-policy.xml
12. http://thomas.loc.gov/cgi-bin/query/z?c109:H.R.2830:
13. http://www.sec.gov/news/press/2005-91.htm

Disability Retirement

Select Committee on Pension Policy

Robert Wm. Baker
Senior Research Analyst

August 23, 2005

Plan 2/3 Disability Retirement Benefit

Members must be:

- Totally incapacitated
- Eligible for a retirement allowance:
  - Based upon service credit
  - Actuarially reduced from age 65

Members Impacted

All plan 2/3 members of PERS, SERS, and TRS whose injuries prevent their return to work

Plan 2/3 Disability Design

- Treated like early retirement
  - –But no age or service requirements
- No distinction between duty and non-duty

Plan 2/3 Actuarial Adjustment Factors

Years Early	Factor
1	.91
2	.82
3	.73
4	.67
5	.61
6	.55
7	.49
8	.43
9	.40
10	.37

Plan 2/3 Benefit Reduction for Disability

Age	55
Average Final Compensation	$4,000
Years of Service	20
Base Percent	40%
Base Benefit (monthly)	$1,600
Actuarial Adjustment Factor	.37
Adjusted Benefit (monthly)	$592

PERS 2/3 Disability Retirements

	PERS 2	PERS 3
Count	1,285	18
Avg. Retirement Age	57.0	56.2
Avg. Member Service	12.4	15.7
AFC (monthly)	$2,542	$4,222
Avg. Base benefit	$632	$661
Avg. benefit Received	$332	$267

Legislative History

- LEOFF 2 Board
- Chapter 451, Laws of 2005
  - Removed the actuarial reduction for duty-disability retirements
- Chapter 4, Laws of 2004
  - Created a minimum duty-disability retirement that provided a tax-free component to the existing LEOFF 2 disability benefit.

LEOFF 1 Disability Benefits

Duty and Non-duty:

- 50 percent of Final Average Salary (FAS)
- Plus 5 percent of FAS for each dependent child
- Not to exceed 60 percent of FAS

LEOFF 2 Disability Benefits

Duty:

- Earned retirement benefit
- Not actuarially reduced
- 10% of FAS minimum; or
- 150% refund of the member's accumulated contributions

Non-Duty:

- Earned retirement benefit
- Actuarially reduced; or
- 100% refund of the member's accumulated contributions

WSPRS Disability Benefits

Duty:

- 50 percent compensation at time of disability, less workers' compensation

Non-duty:

- 50 percent compensation at time of disability, less social security, group insurance, or other pension benefits
- If less than age 50, earnings off-set also applied

PERS 1 Disability Benefits

⅔ AFC or $4,200 per year, whichever is less. At age 60, the benefit

- Converts to a service retirement allowance
- Service credit granted for disability period
- Offset by worker's compensation

TRS 1 Disability Benefits

- Temporary:
  - –$180 per month for up to two years.
- Permanent:
  - –A serv ice retirement, or
  - –An a nnuity based on the member's contributions and service pension, or
  - –A re fund of the member's contributions, plus accrued interest.

PERS, SERS, and TRS Plans 2/3 Disability Benefits

Allowance based upon:

- Years of service and
- Actuarially reduced from age 65.

PSERS Disability Benefits

Allowance based upon:

- Years of service
- Actuarially reduced from age 60.

Higher-Ed Disability Benefits

- Supplemental amount
- No actuarial reduction taken for age

Volunteer Firefighters Disability Benefits

Total disability:

$2,550 per month or $85 per day for a maximum of six months, then $825 per month.

Judges and Judicial Disability Benefits

Fifty percent of FAS for any member having ten or more years of credited service.

Other Disability Benefits

- Workers' Compensation
- Long-Term Disability Insurance
- Social Security

Workers' Compensation

- Time-loss benefits
- 60-75 percent of worker's gross income
- No greater than 120 percent of the State Average Wage
  - $38,7 94 (ESD) ×120% = $46,553

Workers' Compensation

- Partial permanent disabilities
- Total permanent disabilities
- Pension survivor options
- Tax free

Long-Term Disability Insurance

- Offered through PEBB
- Protection outside the workplace
- Basic Coverage: $240 per month
- Optional Coverage: 60 percent of the first $10,000 per month salary.

Long-Term Disability Insurance

- Maximum benefit period – age 65.
- Longer wait = lower premium
- 120 day wait
  - –Higher Ed: 0.43 percent of pay
  - –Others: 0.37 percent of pay
- Not all PERS members PEBB eligible

Social Security Disability

- Available to those completely unable to work.
- No partial or short-term disability.
- Disability to last at least one year or result in death.

Social Security Disability Standard

- Are they working?
- Is their condition severe?
- Is their condition on the list of disabling injuries?
- Can they do the work they did previously?
- Can they do any other type of work?

Social Security Work Qualifications

- 40 credits
  - 20 of which earned in the past ten years
  - Younger may qualify with fewer credits
- Up to four credits can be earned per year.
- For 2005, \$920 earns one credit, and \$3,680 will earn four credits.

Social Security Benefit

- Benefit based on age, earnings, and family status
- http://www.ssa.gov/OACT/quickcalc/
  - 50 years old
  - $50,000/year
  - $1,343/month disability benefit
    - Mem ber's spouse and children may also qualify for benefits

Current Policy in Non-Public Safety Plans

- Disability retirement benefit treated like early retirement not disability insurance
- Financial protection through Workers Compensation and Social Security
- Members responsible for LTD coverage

Policy Questions

- Should worker disability issues be addressed outside or within the retirement plans?
- Should the retirement plans provide disability insurance kinds of benefits?
- Should the retirement plans make distinctions between duty and non-duty disabilities?
- Should the retirement systems make distinctions between Public Safety and Non-Public safety disability benefits?

Policy Questions

- Should payment of Long-Term Disability insurance premiums be a member responsibility, an employer responsibility, or a shared responsibility?
- Should any disability benefit improvement be retroactive (benefit issues are invariably considered after the fact)?

Options

1. Eliminate the actuarial reduction for a disability retirement
2. Eliminate the actuarial reduction for a total disability retirement only with off-sets for workers compensation
3. Eliminate the actuarial reduction for a duty-disability retirement only

Options

4. Eliminate the actuarial reduction for a duty-disability with off-sets for workers compensation
5. Lower the reduction for a disability retirement to 3 percent per year
6. Lower the reduction for a duty-disability retirement to 3 percent per year only

Options

7. Lower the actuarial reduction for a duty-disability to 3 percent per year with off-sets for workers compensation.
8. Default new retirement system members into LTD coverage
9. Provide an employer subsidy for LTD coverage.

Next Steps

- Executive Committee recommendation
- Fiscal analysis of options if advanced by Executive Committee

Disability Retirement

(August 1, 2005)

Issue

Plan 2/3 members of PERS, SERS, and TRS who are totally incapacitated for continued employment are eligible for a retirement allowance that is based upon service credit and actuarially reduced from age 65.

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Members Impacted

This issue would impact all Plan 2/3 members of PERS, SERS, and TRS who become injured to the extent that it prohibits them from continuing employment in their existing job.

Current Situation

A member who is incapacitated and retires as a result of disability may receive a retirement benefit that is actuarially reduced from age 65. This is a common provision within Plan 2/3 design. As a result, a disability retirement is treated like an early retirement and there is no distinction between a duty-related disability and a non-duty-related disability.

An actuarial reduction for early retirement can average more than 8 percent per year compounded (see Figure 1).

Figure 1
Plan 2/3 Actuarial Adjustment Factors

Years Early	Factor
1	.91
2	.82
3	.73
4	.67
5	.61

6	.55
7	.49
8	.43
9	.40
10	.37

Example

A member who became disabled and had to retire at age 55 and was not eligible for an alternate early retirement, would have the base benefit multiplied by a factor of 0.37 and would see the benefit reduced to 37 percent of its base amount (see Figure 2).

Figure 2
Plan 2/3 Benefit Reduction for Disability

Age	55
Average Final Compensation	$4,000
Years of Service	20
Base Percent	40%
Base Benefit (monthly)	$1,600
Actuarial Adjustment Factor	0.37
Adjusted Benefit (monthly)	$592

In this example, the benefit for a disability retirement would be identical to the benefit for a member who opted for an early retirement. The principal difference between early retirement and disability retirement is that to qualify for an early retirement a member needs to meet age and service requirements – age 55 with 20 years of service for an actuarially reduced pension, age 55 with 30 years of service for an alternate early retirement (reduced 3 percent per year) –

members have no age and service requirements to qualify for a disability pension.

There are currently a total of 1,522 disability retirees from the PERS, SERS, and TRS Plans 2/3 (see Figure 3). This figure may understate the incidence of disability in these plans because of the options to receive the benefit in the form of a lump-sum or a refund of the member's contributions and interest.

Figure 3
Plan 2/3 Disability Retirements

	PERS 2	PERS 3	TRS 2	TRS 3	SERS 2	SERS 3
Count	1,285	18	71	30	95	23
Avg. Ret Age	57.0	56.2	55.8	53.3	57.9	57.8
Avg. Member Service	12.4	15.7	11.7	13.7	14.0	17.0
AFC (monthly)	$2,542	$4,222	$3,597	$4,012	$1,789	$2,335
Avg. Base Benefit	$632	$661	$839	$550	$500	$396
Avg. Benefit Received	$332	$267	$472	$190	$263	$201

In general, the base benefit of those currently receiving a disability benefit was reduced by about 50 percent, meaning that the average member became disabled approximately seven years before full retirement eligibility.

The average disability retiree was relatively short-tenured, with under 13 years of service.

Based on age and member service, the average disability retiree was a mid-career hire.

This information should be interpreted with caution as it may simply be reflecting the point in a member's age and service at which it becomes worthwhile to take a disability retirement benefit in lieu of a lump-sum or return of contributions benefit.

History

In the 2005 legislative session, the LEOFF 2 Board sponsored legislation that removed the actuarial reduction for duty-disability retirements. The legislation passed as Chapter 451, laws of 2005.

In the 2004 legislative session, the LEOFF 2 Board sponsored legislation that created a minimum duty-disability retirement that provided a tax-free component to the existing LEOFF 2 disability retirement benefit. This legislation passed as Chapter 4, laws of 2004.

Washington State Systems and Plans

Disability benefits in the Washington systems and plans are almost as varied as the systems and plans themselves (see Figure 4). In general, public safety plans (LEOFF and WSPRS) have more generous disability provisions than the public employee, teachers, and school employee systems and plans.

The disability retirement benefits in LEOFF and WSPRS acknowledge the inherent danger associated with public safety occupations. It is understood that an injury that may not cause a significant impediment in a civilian job may reduce a peace officer's or fire fighter's occupational effectiveness, possibly to the point of endangering the member, the public, or both. As a result, the threshold for an occupational disability is lower in LEOFF and WSPRS compared to the other systems and is reflected in their disability retirement benefits.

Figure 4
Disability Benefits by Washington System and Plan

System/Plan	Benefit
LEOFF 1	*Duty and Non-duty*: 50% of Final Average Salary (FAS), plus 5 % of FAS for each dependent child, not to exceed 60% of FAS
LEOFF 2	*Duty*: Earned benefit, not actuarially reduced, 10% of FAS minimum

LEOFF 2	*Non-Duty: An allowance based upon years of service and actuarially reduced from age 53.*
WSPRS	*Duty*: 50% of compensation earned at time of disability, less workers' compensation. *Non-duty*: 50% of compensation earned at time of disability, less workers' compensation, social security, group insurance, or other pension plans. If member is less than age 50, an earnings off-set is also applied.
PERS 1	⅔ AFC or $4,200 per year, whichever is less. At age 60, the benefit converts to a service retirement allowance in which service credit is granted for the disability period. Offset by Worker's Compensation.
TRS 1	*Temporary*: An allowance of $180 per month for up to two years. *Permanent*: (1) A service retirement, if eligible; or (2) An annuity based on the member's contributions and service pension, if eligible; or (3) A refund of the member's contributions, plus accrued interest thereon.
PERS, SERS, and TRS 2/3	An allowance based upon years of service and actuarially reduced from age 65.
PSERS	An allowance based upon years of service and actuarially reduced from age 60.
Higher Education Retirement Plans	The supplemental amount, except no actuarial reduction will be taken on account of age.
Volunteer Fire	*Total disability*: $2,550 per month or $85 per day for a maximum of 6 months, then $825 per month.
Judges, Judicial	50% of FAS for any member having ten or more years of credited service

(For a more complete description of Washington's disability benefits, see Appendix A.)

Comparative Systems

Among the comparative systems there is some consistency in regards to disability retirement benefits (see Figure 5). The one provision that tends to be most commonplace is the absence of an actuarial reduction in calculating either a duty or non-duty disability benefit. Other common features are benefits based on a fixed percentage of salary or benefits that would be assumed at a normal retirement age. There are also off-sets against a Worker's Compensation benefit. In general, the disability retirement benefits among the comparative systems are similar in value to service retirement benefits.

Figure 5
Disability Benefits by Comparative System

System	Benefit
California CalPERS	Earned monthly retirement benefit for life or until recovered from injury.
Colorado PERA	50% of Highest Average Salary or greater if accrued service credit is beyond 20 years.
Florida FRS	*Regular*: 25% of AFC *Duty*: 42% of AFC *Special Risk*: 65% of AFC
Idaho PERSI	Age 65 benefit or 30 year benefit, whichever is less for regular members. Age 60 benefit or 30 year benefit, whichever is less for police and fire members.
Iowa IPERS	Earned benefit without reduction for early retirement.
Minnesota MSRS	Earned benefit without reduction for early retirement. Workers' compensation benefit will be reduced by MSRS benefit. LTD benefits may be reduced by MSRS benefit.
Missouri MOSERS	60% of the member's monthly salary on their last full day of active work, or the average monthly salary for the highest 36 months of employment, less social security, workers compensation, wages, other insurance, and sick leave.
Ohio OPERS	Earned benefit with no reductions for early retirement, cannot be less than 45% or exceed 60% of FAS.
Oregon PERS	Age 58 retirement benefit for general service members. Age 55 retirement benefit for police officers and fire fighters.
Seattle SCERS	Earned benefit that is at least ⅓ of the member's Average Salary.
Wisconsin WRS	Benefit assumed at normal retirement age – 65 for regular members and 55 of protective members.

For a more complete description of disability benefits in these comparative systems see Appendix B.

Other Disability Benefits

Plan 2/3 members' financial protection from disability is not limited to their earned retirement benefit. The following sections of this report will describe the alternate sources of disability benefits for Plan 2/3 members – Workers

Compensation, Long-Term Disability (LTD) insurance, and Social Security. These alternate sources of benefits are not necessarily independent of each other. Receipt of an earned disability retirement benefit is not subject to off-sets from these other sources of disability coverage, but receipt of Worker's Compensation or social security will off-set an LTD benefit.

Worker's Compensation

Time-Loss Benefits

Plan 2/3 members who are unable to work as a result of injury or disease incurred in the course of employment, may be eligible to be paid a portion of their regular wages under Labor and Industry's (L&I) Worker's Compensation program. These time-loss compensation payments will not provide the same income as when the members were working. The amount of a time-loss benefit is 60 to 75 percent of a worker's gross income (includes wages/salary plus medical, dental, and vision benefits; room and board; bonuses and tips). The percentage depends on the worker's marital status and number of dependents. On an annual basis these benefits cannot exceed 120 percent of the state's average wage as measured by the Washington State Employment Security Department. As of 2004 the State's annual average wage was $38,794, and 120 percent of the annual average wage was $46,553.

Awards for Partial Permanent Disabilities

If an injury or occupational disease causes permanent loss of bodily function, the injured worker will receive a permanent partial disability award. The amount received for any physical loss is established by the Legislature and does not include compensation for pain and suffering. There are two types of permanent partial disabilities:

- *Specified disabilities*: Some disabilities have awards that are already set by law, such as loss of vision or hearing; or the loss of an eye, leg, foot, toe, arm, or finger by amputation (see RCW 51.32.080.)
- *Unspecified disabilities*: These disabilities include every other type of impairment caused by an on-the-job injury or occupational illness, including the partial loss of function to a limb.

The degree of a partial loss of function is determined by a disability rating. These ratings are conducted either by the attending physician or by one or more independent medical examiners using established medical standards and guidelines. Normally, ratings are performed after all services have been completed, the injured worker is medically stable, and no further treatment is appropriate.

A permanent partial disability award is not jeopardized by working. Workers are encouraged to return to their job as soon as their doctor releases them for work. Any permanent partial disability award is based on the degree of damage suffered, not on ability to work.

Pensions for Total Permanent Disabilities

If an accident results in the loss or total paralysis of both legs or arms, one leg and one arm, or a total loss of eyesight, a worker is eligible for a pension by law, even if able to return to work.

If vocational and medical evaluations determine that an injury prevents a worker from ever becoming gainfully employed, they may be paid a monthly pension for life. However, this type of non-statutory pension may not be payable if a worker is able to return to work.

Pension benefits are paid monthly. They are based on the amount of time-loss compensation to which a worker is entitled. As with time-loss compensation benefits, the amount a worker is eligible to receive depends on factors such as wages, marital status, number of dependents, health care benefits, Social Security benefits, and the state's average wage at the time of the injury. In some cases, a pension benefit amount may be reduced for previously paid permanent partial disability awards.

Pension Survivor Options

If a worker is granted an L&I pension, they can choose one of these survivor options:

- An unreduced single life pension.
- A reduced joint and 50 percent pension.
- A further reduced joint and 100 percent pension.

Tax Free

Workers compensation awards are tax-free. The actual value of a benefit will depend on the tax status of the recipient. A recipient eligible for the maximum time-loss benefit of $46,553, who had formerly been in the 28 percent tax bracket, would receive a benefit equivalent to $64,657.

Long-Term Disability Insurance

Eligible retirement plan members may protect themselves from a disabling injury outside the work-place by purchasing LTD insurance. This insurance is offered through the Public Employees Benefits Board (PEBB) in basic and optional coverage. Basic coverage provides up to $240 per month while optional coverage, in combination with basic coverage, will pay 60 percent of the first $10,000 of pre-disability monthly earnings. These payments continue for a maximum benefit period – in most cases, up to the age of 65 – the age of normal retirement. At the end of the maximum benefit period LTD payments cease and the member transitions to a normal retirement benefit with service credit normally awarded for the period of disability.

For members who are willing to wait 120 days before receiving benefits, the monthly premiums are 0.43 percent of pay for Higher Education Retirement Plan employees and 0.37 percent of pay for TRS, PERS, and other employees (see Appendix C). As is characteristic with disability insurance, shorter waiting periods have higher premiums and longer waiting periods have lower premiums. A note of caution – not all PERS members are eligible for PEBB coverage.

If a member has LTD insurance and is injured on the job, their LTD benefits are off-set against Worker's Compensation.

Social Security Disability

Most Plan 2/3 members pay into the Social Security system and are covered under the system's disability provisions. The definition of disability under Social Security, however, is quite narrow. Social Security pays only for a total disability where an individual is completely unable to work. No benefits are payable for partial disability or for short-term disability. An individual is considered disabled under Social Security rules if they cannot do the work they did before and they cannot adjust to other work because of their medical condition(s). An individual's disability must also last, or be expected to last, for at least one year or to result in death.

This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including Worker's Compensation, insurance, savings, and investments.

Social Security Standard for Disability

Those applying for a Social Security disability benefit are evaluated via a progressive series of questions, beginning with...

... *Are they working?* Those currently working and earning more than $811 a month generally are not disabled. For those not working...

... *Is their condition "severe"?* A condition must interfere with basic work-related activities to be a disability. If it does not, there is no disability. If it does...

... *Is their condition on the list of disabling conditions?* Social Security maintains a list of medical conditions that automatically mean a worker is disabled. If the condition is not on the list, Social Security determines if it is of equal severity to a condition on the list. If it is, the worker is disabled. If it is not...

... *Can they do the work they did previously?* If the condition is severe, but not at the same or equal level of severity as a medical condition on the list, then Social Security determines if it interferes with their ability to do the work they did previously. If it doesn't, the claim will be denied. If it does...

... *Can they do any other type of work?* If they cannot adjust to other work, their claim will be approved. If they can adjust to other work, their claim will be denied.

How Much Work Is Needed?

In addition to meeting the Social Security definition of disability, a worker must have worked long enough, and recently enough, to qualify for disability benefits. Social Security work credits are based on total yearly wages or self-employment income. Up to four credits can be earned each year. The amount needed for a credit changes from year to year. For 2005, $920 of wages will earn one credit and $3,680 of wages will earn the maximum four credits.

The number of work credits needed to qualify for disability benefits depends on the age of disability. Generally, a worker needs 40 credits, 20 of which were earned in the last ten years, ending with the year they become disabled. However, younger workers may qualify with fewer credits.

Policy Analysis

Unlike funding policy, which is found in statute, disability policy can only be inferred through existing provisions. Those provisions treat disability pensions in the Plans 2/3 similar to early retirement benefits rather than insurance benefits. Within the confluence of public employee programs, it is understood that plan members are covered under Washington State's industrial insurance program and also have at their disposal, should they so choose, LTD insurance. As a result, there is less of a need to provide similar insurance-type coverage under the retirement plans themselves.

Plan 2/3 members who are injured on the job are covered by the Worker's Compensation program administered by L&I. In a situation where a retirement plan member is disabled because of an injury that occurred away from work and thus not covered under Worker's Compensation, current provisions require that members be responsible for the purchase of LTD insurance through PEBB. As local government employees are not eligible for PEBB benefits, their employers ability to offer them LTD insurance coverage has to be considered separately from the State.

Most Plan 2/3 members are also covered under the Federal Social Security program. In addition to providing retirement benefits, this program also provides disability benefits. Admittedly the qualifying standards to receive these benefits are very high - to qualify, a recipient must be unable to perform any gainful employment.

Thus the current policy towards disability acknowledges that a member's financial needs are only partially addressed through the retirement systems via the disabled member's earned early retirement benefit. It is understood that the remaining financial protection is provided through Worker's Compensation, LTD insurance (that the member must choose to purchase), and Social Security benefits.

Policy Questions

In light of the questions regarding the adequacy of plan 2/3 disability retirement benefits, the distinct sources of disability benefits available for public employees, and the inter-relationship of those sources and benefits, SCPP members may want to consider the following policy questions:

- Should worker disability issues be addressed outside or within the retirement plans?
- Should the retirement plans provide disability insurance kinds of benefits?
- Should the retirement plans make distinctions between duty and non-duty disabilities?
- Should the retirement systems make distinctions between public safety and non-public safety disability benefits?
- Should payment of LTD insurance premiums be a member responsibility, an employer responsibility, or a shared responsibility?
- Should any disability benefit improvement be retroactive (benefit issues are invariably considered after the fact)?

Options for Plan 2/3 Disability Retirement

Option 1. *Eliminate the actuarial reduction for a disability retirement.*
This would place the PERS, SERS, and TRS plans 2/3 on par with LEOFF 2 duty-disability benefits and acknowledge the involuntary nature of disability.

Option 2. *Eliminate the actuarial reduction for a total disability retirement only with off-sets for Worker's Compensation.*
This would acknowledge the financial needs of members who are unable to work, while recognizing their L&I coverage.

Option 3. *Eliminate the actuarial reduction for a duty-disability retirement only.*
This would require an administrative differentiation between a duty and non-duty disability; at this time no such administrative difference is made.

Option 4. *Eliminate the actuarial reduction for a duty-disability with off-sets for Worker's Compensation.*
This would acknowledge the benefits available outside the retirement system and require the same administrative burden as Option 2, plus require additional coordination with L&I.

Option 5. *Lower the reduction for a disability retirement to 3 percent per year.* This would acknowledge the involuntary nature of disability and still recognize the need for members to provide their own insurance coverage.

Option 6. *Lower the reduction for a duty-disability retirement to 3 percent per year only.*
This would acknowledge the involuntary nature of disability, while recognizing that members may be not be eligible for a total and permanent Worker's Compensation or Social Security disability benefit.

Option 7. *Lower the actuarial reduction for a duty-disability to 3 percent per year with off-sets for Worker's Compensation.*
This would acknowledge the involuntary nature of disability while also recognizing that the duty-disabled may be receiving Worker's Compensation benefits.

Option 8. *Default new retirement system members into LTD coverage – they would need to affirmatively decide to opt-out of coverage.*
This would recognize that the member has the primary responsibility for their own non-duty disability insurance coverage.

Option 9. *Provide an employer subsidy for LTD coverage.*
This would recognize that, while the member has the primary responsibility for non-duty disability insurance coverage, it is also in the employers' interest to assure their employees are financially secure.

Stakeholder Input

Jeffry Graves (see attachment)

George A. Compton, c/o Representatives Fromhold and Crouse (see attachment)

Appendix A
Disability Benefits by Washington State Systems and Plans

LEOFF 1

Duty/Non-Duty: With the approval of the local disability board and the Director of DRS, a member who has incurred a disability rendering him or her unable to continue service in the position or rank held at that time, shall receive an allowance of 50 percent of FAS, plus an additional 5 percent of FAS for each dependent child, not to exceed a maximum benefit of 60 percent of FAS.

PERS 1

Duty: From the time of disability to age 60, a member who becomes totally and permanently incapacitated as the result of an accident in the actual performance of duties, or qualifies to receive workmen's compensation benefits (Industrial Insurance) due to an occupational disease, shall receive an allowance of ⅔ AFC or $4,200 per year, whichever is the lesser. At age 60, the benefit converts to a service retirement allowance in which service credit is granted for the period from the date of disability to the date of conversion to the service retirement. This benefit is offset by Worker's Compensation.

If a disabled member becomes gainfully employed and the compensation received is less than the compensation received at the time of becoming disabled (adjusted by the CPI-Seattle), the disability benefit is to continue, but it is reduced so that the sum of the benefit and the new compensation are equal to the compensation received at the time of disablement.

Non-duty: If the member has five or more years of service, the retirement allowance is reduced 2 percent for each year the member is under age 55. The benefit is offset by Worker's Compensation, if any.

TRS 1

Temporary: An allowance of $180 per month is payable to a member who is mentally or physically incapacitated for the further performance of duty for up to two years.

Permanent: A member who is employed either full-time or half-time under an annual contract, but becomes totally and permanently incapacitated for duty is eligible for a benefit of:

(1) A service retirement allowance based on service or age, if eligible; or
(2) A disability retirement allowance, if eligible; or
(3) A refund of the member's contributions, plus accrued interest thereon.

WSPRS 1&2
Duty: 50 percent of compensation earned at time of disability, less any benefit received from workers' compensation.

Non-duty: 50 percent of compensation earned at time of disability, less benefits received from Worker's Compensation, social security, group insurance, or other pension plans. If member is less than age 50, an earnings off-set is also applied.

Both duty and non-duty benefits are paid from the operational funds of WSP.

LEOFF 2
(1) A member who becomes totally incapacitated for continued employment shall receive an allowance based upon service credit years and shall have such allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age 53.
(2) A member who becomes disabled in the line of duty on or after 1/1/01 is eligible to receive either:
    (a) A refund of 150 percent of the member's accumulated contributions; or
    (b) A minimum benefit equal to 10 percent of the member's AFC, plus an additional allowance of 2 percent of AFC for each year of service beyond five years. The 10 percent minimum is tax-exempt.

PERS 2, SERS 2, TRS 2
A member who becomes totally incapacitated for continued employment shall receive an allowance based upon years of service and actuarially reduced from age 65.

PSERS
A member who becomes totally incapacitated for continued employment shall receive an allowance based upon years of service and actuarially reduced from age 60.

PERS 3, SERS 3, TRS 3
A member who becomes totally incapacitated for continued employment shall receive a defined benefit allowance based upon service credit years and actuarially reduced from age 65.

Higher Education Retirement Plans
If it is determined that the member is disabled due to a condition of health, the member is eligible for retirement. If the member has ten or more years of credited service, the member, regardless of age, may be entitled to the supplemental amount, except no actuarial reduction will be taken on account of age.

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension
Beginning July 1, 2001, disability payments are increased annually by the two-year average increase in the CPI for urban wage earners and clerical workers, all items.

(1) If it is determined that if the member is physically or mentally disabled, as the result of the performance of duty, so as to be wholly prevented from engaging in every duty of the member's regular employment, the member will receive $2,550 a month, not to exceed six months; or $85 per day for periods of time less than one month.
(2) The member may receive $825 per month as long as the disability continues if the member is either:
    (a) Incapacitated to the extent that he or she cannot engage in any occupation or perform any work for compensation or profit; or
    (b) After 10/1/78, sustained an injury resulting in the loss or paralysis of both legs or arms, or one leg and one arm, or total loss of eyesight, but is not prevented from engaging in any occupation or performing any work for compensation or profit.

    If the member has a spouse, an additional $225 per month will be provided and/or $110 for each child under the age of 18, to a maximum of $2,550.
(3) Where a permanent partial disability exists, the board may provide a lump sum payment as is paid under Worker's Compensation in lieu of monthly payments.

Judges, Judicial
Fifty percent of FAS for any member having ten or more years of credited service and who is declared to be physically or otherwise permanently incapacitated for full and efficient performance of duty.

Appendix B
Disability Standards and Benefits in Comparative Systems

System	Disability Standard	Benefit
California CalPERS	An illness or injury that prevents the member from performing their job duties with their current employer or any other CalPERS employer and there are no positions reasonably comparable in pay, benefits, and promotional opportunities the member can perform.	Earned monthly retirement benefit for life or until recovered from injury.
Colorado PERA	Totally and permanently disabled from engaging in any regular and substantial gainful employment (75% of pre-disability earnings).	50% of Highest Average Salary or greater if accrued service credit is beyond 20 yrs.
Florida FRS	Totally and permanently disabled to the extent that he or she is unable to work. (Regular disability requires 8 yrs. service, duty or special risk eligibility from the first day).	*Regular*: 25% of AFC *Duty*: 42% of AFC *Special Risk*: 65% of AFC
Idaho PERSI	A physical or mental impairment which is considered total and permanent and prevents the member from earning a livelihood. (Regular disability requires 5 yrs. service and duty eligibility from the first day).	Age 65 benefit or 30 yr. benefit, whichever is less for regular members. Age 60 benefit or 30 yr. benefit, whichever is less for police and fire members.
Iowa IPERS	Member is receiving Social Security disability or Railroad Retirement disability benefits.	Earned benefit without reduction for early retirement.
Minnesota MSRS	Member has 3 or more years of service and is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that has existed or is expected to continue for a period of at least 1 year.	Earned benefit without reduction for early retirement. Workers' compensation benefit will be reduced by MSRS benefit. LTD benefits may be reduced by MSRS benefit.
Missouri MOSERS	LTD coverage provided at no cost to member. *Own occupation*: Unable to perform with reasonable continuity the material duties of own occupation and loss of at least 20% of pre-disability earnings. *Any occupation*: Unable to perform the material duties of any occupation – one in which the member could earn at least 60% of their per-disability earnings.	60% of the member's monthly salary on their last full day of active work, or the average monthly salary for the highest 36 months of employment, less social security, Worker's Compensation, wages, other insurance, and sick leave.
Ohio OPERS	5 yrs. service credit (immediate eligibility for law enforcement), a permanent disabling condition, either mental or physical, that prevents the member from doing their job.	Earned benefit with no reductions for early retirement, cannot be less than 45% or exceed 60% of FAS.

Oregon PERS	Member is unable to perform any work for which they are qualified for a minimum of 90 consecutive days because of an injury or illness. *Duty*: Eligible immediately *Non-duty*: 10 yrs. of service.	Age 58 retirement benefit for general service members. Age 55 retirement benefit for police officers and fire fighters.
Seattle SCERS	*Non-duty*: Unable to work due to illness, and have at least 10 yrs. of service, 5 of which must have been earned during the 10 yrs. prior to becoming disabled. *Duty*: If due to an on-the-job injury, the member is permanently and totally disabled, regardless of length of service.	Earned benefit that is at least ⅓ of the member's Average Salary.
Wisconsin WRS	A total and permanent disability, confirmed by two physicians, that prevents the member from any further gainful employment (60% of final average earnings). Plan assumes member would also qualify for a Social Security disability benefit.	Benefit assumed at normal retirement age – 65 for regular members and 55 for protective members.

Appendix C
Public Employees Benefits Board Long Term Disability Insurance
(Underwritten by Standard Insurance Company)

The PEBB-sponsored LTD plan has two parts—Basic and Optional.

Basic Plan: This plan is included in the full PEBB package at no additional cost for employees. The Basic Plan provides a benefit of 60 percent of the first $400 of pre-disability earnings, reduced by any deductible income. The maximum benefit payable is $240 per month. The minimum benefit is $50 per month. Benefits begin after 90 days of total disability or after the period of accumulated sick leave, whichever period is longer, and continues during disability up to the Maximum Benefit Period. The Maximum Benefit Period is determined by the type of disability and the age of the enrollee when he or she becomes disabled.

Optional Plan: This plan allows most employees eligible for the Basic Plan to apply for additional benefits. If the coverage is applied for within 31 days of the eligibility date, evidence of insurability does not have to be provided. When combined with the Basic Plan benefits, the Optional Plan will pay 60 percent of the first $10,000 of pre-disability monthly earnings, reduced by any deductible income. The minimum combined benefit is $100 per month. The Optional Plan benefit will increase in accordance with the Cost of Living Adjustment (COLA) provision. Optional Plan benefits begin after the end of the Benefit Waiting Period and continue during disability up to the Maximum Benefit Period -- in most cases up to the age of 65.

Payroll Deductions as a Percent of Pre-disability Earnings

Waiting Period	Higher Education Employees	TRS, PERS, & Other Employees
30 days	2.67%	2.11%
60 days	1.35%	1.12%
90 days	0.74%	0.61%
120 days	0.43%	0.37%
180 days	0.32%	0.29%

240 days	0.31%	0.28%
300 days	0.29%	0.26%
360 days	0.28%	0.25%

To calculate an Optional Plan LTD premium, multiply the monthly base pay (up to $10,000) by the percentage shown for the desired Benefit Waiting Period.

Examples:

For a Higher Education Retirement Plan (TIAA-CREF) employee with monthly earnings of $1,000, the 60-day benefit waiting period would cost $13.50 per month (1.35% x $1,000 = $13.50).

For a TRS, PERS, or other retirement plan employee with monthly earnings of $1,000, the 60-day benefit waiting period would cost $11.20 per month (1.12% x $1,000 = $11.20).

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The State Actuary

Washington State Senate

Olympia Office:
PO Box 40438
Olympia, WA 98504-0438

Senator Jean Berkey
38th Legislative District

Ph: (360) 786-7674
FAX: (360) 786-7450
Berkey_Je@leg.wa.gov

July 21, 2005

Jeffry Graves
730 Bair Island Road #101
Redwood City, CA 94063

Dear Mr. Graves:

Thank you for your e-mail message of July 7, concerning your disability retirement benefits. I am sorry for the delay in responding, our Olympia office was closed for a short vacation.

In order for me to check into the specifics of your situation I will need a signed statement from you authorizing this office to review your personnel/retirement records. And, I will need the name of which Retirement Plan you were covered by the Port of Seattle. Please include your full name, social security number or employee number, date of birth and any other pertinent personal information along with the type of disability you incurred and if it was an injury covered by Labor and Industries.

I may also need to contact your employer, so please include a sentence that would allow me to make inquiries on your behalf.

I am including a self-addressed stamped envelope for your convenience.

Sincerely,

Jean

Jean Berkey
State Senator
Thirty-Eighth District

JB:ja

DISABILITY ACTION SHEET

RE: JEFFRY GRAVES [redacted]

Jeffry Graves, [redacted] has applied for *Earned* disability retirement allowance. The application has been reviewed, and it administratively meets statutory requirements in accordance with RCW 41.40.670.

Comments:

Cathy Dodson 6/30/05
Cathy Dodson (Date)
PERS/SERS Retirement Services Analyst

Separation Date:

****

Jeffry Graves, [redacted] is a 52-year-old PERS-2 Port of Seattle Harbor Facilities coordinator who has applied for *Earned* disability retirement allowance. He reports permanent median nerve damage in right arm and hand, severe chronic pain, sensory loss, arm and hand weakness, herniated disc at C-6-7 and neuropathy. The member reports additional employment skills to include marina attendant. Mr. Graves has not separated from employment.

The *Employer* supports the application. They explored reasonable accommodation to include leave, which began on 05/24/2005-07/12/2005. No additional accommodations were offered due to the fact that Mr. Graves' essential functions could not be sufficiently modified. It is their opinion that Mr. Graves can no longer perform the duties of the position due to nerve damage and pain.

Thomas B. Curtis, MD (*Physical Medicine and Rehabilitation*) reports cervical degenerative disc disease, proximal right median neuropathy, decreased function caused by pain. Mr. Graves presents with pain, decreased function and strength. MRI is consistent with cervical degenerative disc disease, right C6-7 foraminal narrowing and on 06/22/2003 underwent surgical exploration of the median nerve, however pain persisted. Dr. Curtis concludes Mr. Graves became totally incapacitated for further performance of duty 05/24/2005. (I)

Comments: Recommend ***approval.***

Lisa Ladrido, RN 6/30/2005
Lisa Ladrido, RN, BSN (Date)
Medical Advisor

****

According to the authority delegated by the Director under the provisions of RCW 41.50.060, the above-noted application is ***approved / ~~denied~~.***

Comments:

Michelle Hardesty 6/30/05
Michelle Hardesty (Date)
PERS/SERS Plan Administrator

7/26/05

Dear Senator Berkey and Members of the Select Committee on Pension Policy,

This letter is in response to your request for information about my situation.

My retirement plan is with the Washington State Retirement System, PERS II. My Social Security number is [redacted] and the full spelling of my name is Jeffry Allan Graves.

I was with the Port of Seattle for 26 years. I was injured in a car accident off the job and have severe median nerve damage in my right arm. My right arm and hand are half numb and I have severe constant pain in both the arm and hand. This is not covered by Labor and Industries. I also have degenerative disc disease in my spine and a herniated disc C-6 & C-7 in my neck. These are secondary to the nerve damage in my right arm.

The herniated disc did happen on the job in 1990 and that case was closed even though I still have pain from that injury. I did not think at the time that the pain would return and that I would have trouble with it for the rest of my life. I tried to reopen this case at one point but I was denied by Labor and Industries Doctors. I got so tired of trying to deal with them, I just quit trying! My Doctors say that I am in very bad shape for a 52 year old man!

Here is the problem in a nutshell. I had to quit working because of my disability and filed for disability retirement benefits the Washington State Retirement System under PERS II. My reduced benefit is $593.00 a month! There is no provision for someone injured off the job to collect full disability retirement benefits under PERS II like there is under LEOFF II. They removed the actuarial reduction for disability retirement for its members. That Legislation passed as chapter 451, Laws of 2005.

You might say, well I can collect Social Security Disability Benefits and Disability benefits under the Port group disability insurance policy. While this may be true, so can LEOFF II and any person retiring for a disability, wither they are getting full retirement benefits or not.

I have applied for both, but they both have different requirements for a disability and I can be denied even though the Washington State Retirement System approved benefits for my disability. I am still waiting to hear from both of them.

I would like you to consider removing the actuarial reduction for disability retirements for PERS II members. It only seems fair. I wish I could be at the meeting so you could actually see me and what I am going through, but my finances are limited. I reside in California now to be near my Family.

Regards,

Jeffry Allan Graves

cc: Select Committee on Pension Policy

STATE REPRESENTATIVE
4th DISTRICT
LARRY CROUSE

State of Washington House of Representatives

TECHNOLOGY, TELECOMMUNICATIONS & ENERGY
RANKING MINORITY MEMBER
COMMERCE & LABOR

RECEIVED
JUL 5 2005
Office of
The State Actuary

June 30, 2005

Representative Bill Fromhold
PO Box 40600
Olympia, Washington 98504-0600

Dear ~~Representative Fromhold~~: Bill

Attached is a letter I received from, George Compton, a disabled veteran living in Spokane. Mr. Compton is requesting changes in early retirement pension rules for those who have sustained military service related disabilities. I'm not sure if Mr. Compton has contacted other SCPP members, but I wanted to make sure that you were aware of his concerns.

Please let me know if you think this is an issue that may merit further consideration by the committee.

Best regards,

Larry Crouse
State Representative
District 4

LC/ss

enc. Letter of George Compton

January 31, 2006

Representative Larry Crouse
Select Committee on Retirement Policy

Hello, my name is George Compton, and I am a resident of Washington state legislative district 6. Let me begin by telling you that I am 56 years old and was employed by the Department of Social and Health Services (DSHS) for just short of 24 years, the last 17 years as a social worker with Home and Community Services (HCS).

In October 2004, I voluntarily terminated my employment after it became apparent that I was no longer able to adequately perform my job duties. This was not an easy decision for me to make, but, due to the circumstances, I believe this decision was the wisest and fairest one possible for the department, the clients I served, and myself. I was drafted and sent to Vietnam as infantry in 1967. I was injured by a land mine explosion and suffered fractures to both ankles as well as my spine. I now have Degenerative Joint Disease in these joints and experience chronic (and sometimes severe) pain. I also have Post Traumatic Stress Disorder (PTSD) and since the events of September 11, 2001, this condition has increased in severity to the point that I am not able to function well enough to maintain employment. I have been awarded a disability pension from the Veterans' Administration, but this is less than a third of what I had been earning as a social worker. I qualify for retirement benefits from the State of Washington, but due to my age and the rules concerning actuarial reduction in these pension benefits for being under age 65, I would not receive much. This is where I am hoping you could help me.

I am requesting that you work with your fellow legislators to make needed changes to the rules governing the State Public Employees Retirement System. Veterans who have suffered severe service-connected disabilities while serving their country and are no longer able to maintain employment due to these disabilities should be entitled to receive the retirement benefits they have earned without having them actuarially-reduced.

Right now there are men and women from this state serving our country in Iraq and Afghanistan. Some of them were called up from the Reserves or National Guard and may be State Employees. If they are injured while serving and are unable to return to work, should they have to wait until they are 65-years old to receive their retirement benefits without being penalized by the actuarially-reduced amount? Is that how this state is going to tell them "Thank you for your sacrifice"? I did not get a "Thank You" when I came home from Nam. In fact I came home to ridicule and contempt. I hope that these men and women are treated much, much better. Now, at age 56, I am unable to work as a consequence of my serving this country. Is it asking too much to get my retirement without the actuarial penalty? Can this state finally tell me and my fellow (state employee) veterans "thank you" by allowing us to retire with dignity under these less than ideal circumstances? Thank you for your consideration.

Sincerely,

George A. Compton

George A Compton
3624 N. Garfield Rd.
Spokane, WA. 99224
(509)244-9457
georgecompton@highstream.net

MESSAGE:

Dear Senator Fraser,

Greetings! I realize that I am not in our legislative district, but as you are the Chair for the Select Committee on Pension Policy I believed that it would be appropriate to contact you, but perhaps I am mistaken. I am a disabled Vietnam Veteran who has worked for the State of Washington for almost 24 years. I was forced to resign my position as a social worker last

Oct. as a result of my service connected disabilities. I tried my best to overcome these disabilities and continue to work with the goal of retiring at age 65, however, my health became such an issue that I was not able to adequately perform my job duties and I was finally forced to resign. On Jan. 31, 2005, I mailed y ou a letter regarding this situation but I do not believe that I received any response from you which would indicate that you received it. I will include a copy of this letter with this email so that you may see it if it was misdirected in the mail. I hope to receive a response from you in the near future. Thank you!

The following is a copy of the letter I sent on Jan. 31, 2005.

January 31, 2006

Dear Senator Fraser,

Hello, my name is George Compton, and I am a resident of Washington state legislative district 6. Let me begin by telling you that I am 56 years old and was employed by the Department of Social and Health Services (DSHS) for just short of 24 years, the last 17 years as a social worker with Home and Community Services (HCS).

In October 2004, I voluntarily terminated my employment after it became apparent that I was no longer able to adequately perform my job duties. This was not an easy decision for me to make, but, due to the circumstances, I believe this decision was the wisest and fairest one possible for the department, the clients I served, and myself. I was drafted and sent to Vietnam as infantry in 1967. I was injured by a land mine explosion and suffered fractures to both ankles as well as my spine. I now have Degenerative Joint Disease in these joints and experience chronic (and sometimes severe) pain. I also have Post Traumatic Stress Disorder (PTSD) and since the events of September 11, 2001, this condition has increased in severity to the point that I am not able to function well enough to maintain employment. I have been awarded a disability pension from the Veterans' Administration, but this is less than a third of what I had been earning as a social worker. I qualify for retirement benefits from the State of Washington, but due to my age and the rules concerning actuarial reduction in these pension benefits for being under age 65, I would not receive much. This is where I am hoping you could help me.

I am requesting that you work with your fellow legislators to make needed changes to the rules governing the State Public Employees Retirement System. Veterans who have suffered severe service-connected disabilities while serving their country and are no longer able to maintain employment due to these disabilities should be entitled to receive the retirement benefits they have earned without having them actuarially-reduced.

Right now there are men and women from this state serving our country in Iraq and Afghanistan. Some of them were called up from the Reserves or National Guard and may be State Employees. If they are injured while serving and are unable to return to work, should they have to wait until they are 65-years old to receive their retirement benefits without being penalized by the actuarially-reduced amount? Is that how this state is going to tell them "Thank you for your sacrifice"? I did not get a "Thank You" when I came home from Nam. In fact I came home to ridicule and contempt. I hope that these men and women are treated much, much better. Now, at age 56, I am unable to work as a consequence of my serving this country. Is it asking too much to get my retirement without the actuarial penalty? Can this state finally tell me and my fellow (state employee) veterans "thank you" by allowing us to retire with dignity under these less than ideal circumstances? Thank you for your consideration.

Sincerely,

George A Compton
3624 N. Garfield Rd.
Spokane, WA. 99224
(509)244-3236
georgecompton@highstream.net

TRS Out-of-State Service Credit

Laura Harper
Select Committee on Pension Policy

August 23, 2005

Issue

Should the SCPP continue to propose legislation allowing eligible TRS 2/3 members to purchase up to seven years of membership service credit for state or federal public education experience rendered outside the Washington State retirement system?

Members Impacted

- 1,236 out of 7,470 actives in TRS 2.
- 26,803 out of 49,302 actives in TRS 3.
- Meet service eligibility, but not all have out-of-state service.

Current Situation

- Currently, TRS members may use out-of-state service credit solely for the purpose of determining the time at which they may retire.
- No purchase is made; credit is not membership service.
- Member's benefit is actuarially reduced for early retirement.

History of SCPP Proposal

- Proposal comes from 2004 “Age 65 Subgroup” of the SCPP.
- SCPP sponsored HB 1322/SB 5489 in 2005 session.
- Bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means.

Eligibility - SCPP Proposal

- Applies to Plan 2/3 members.
- Allows a one-time purchase of up to seven years of service credit.
- Credit is for state or federal public education experience.
- Experience must have been covered by a governmental retirement plan.
- Member must have between five and ten years of service credit in TRS.

Eligibility - SCPP Proposal (cont'd)

- The purchase cannot result in the acquisition of service credit that is greater than the member's total years of creditable service in the retirement system.
- The service credit purchased is membership service and may be used to qualify the member for retirement.

Cost to Member

- (Employer rate + employee rate) x salary x years of service + compounded interest at actuarial rate of 8%.
- Contribution rates are based on member's age at entry into TRS and calculated under entry age normal cost method.
- All or part of cost may be paid by a rollover or transfer from an eligible plan.
- Employer may pay all or part of cost.

Policy Questions

- Will members of other systems seek a similar benefit?
- Does the teaching profession have a unique need for this benefit?
- Does the benefit aid in recruitment and retention of teachers?
- How would this benefit compare with out-of-state service credit purchase programs in other states?

Next Steps

- SCPP's 2005 bill is technically alive for the 2006 session.
- A draft fiscal note with updated cost estimates is provided.
- Should the proposal be advanced or modified in 2006?

TRS Out-of-State Service Credit

(August 3, 2005)

Issue

The issue before the SCPP is whether to continue to propose legislation allowing eligible members of the Teachers' Retirement System (TRS) Plans 2 and 3 to purchase up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

Members Impacted

This proposal impacts eligible members of TRS Plans 2 and 3. We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

Current Situation

Currently, members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's benefit is actuarially reduced to recognize the difference between the age a member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

Procedural Posture/Executive Committee Recommendation

As the result of the September 7, 2004, briefing of the SCPP on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. In the fall of 2004, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide eligible members of TRS Plans 2/3 the opportunity to purchase up to seven years of out-of-state service credit as membership service, with conditions as set forth in the description below. The Executive Committee directed staff to prepare a bill draft and fiscal note on the proposal and the full Committee approved the proposed legislation for introduction in the 2005 legislative session.

In the 2005 session, the SCPP's bill was introduced as HB 1322/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a total employer cost of $4.5 million in 2005-2007, $5.1 million in 2007-2009, and $130.4 million through 2030. At its July 2005 meeting, the Executive Committee recommended that this issue be brought back to the full committee for consideration on August 23, 2005.

2005 SCPP Legislative Proposal

Eligibility

1. This proposal impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System.

2. The public education experience claimed must have been covered by a governmental retirement or pension plan and the member must not be receiving or eligible to receive an unreduced retirement benefit that includes the service to be purchased.

3. To take advantage of this provision, a member must have between five and ten years of service credit in TRS.

4. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

5. The service credit purchased is membership service and may be used to qualify the member for retirement.

Cost to Member

1. The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW:

   (Employer rate + employee rate) x salary x years of service + compounded interest (8 percent)

   The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method.

2. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan and the employer may pay all or a portion of the member's cost.

Policy Analysis

This proposal provides a benefit to the TRS Plans 2 and 3 that is not available in the SERS or PERS Plans 2/3, nor will it be available in PSERS Plan 2. The proposal is inconsistent with the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). If it were passed by the legislature, this proposal could lead to "leapfrogging" in that members of other retirement systems may seek similar or improved service credit purchase opportunities in the future. Proponents of this legislation have argued that the teaching profession has a unique need for this benefit in order to assist in recruitment and retention of teachers.

It should be noted that TRS members have another service credit option that PERS and SERS members do not have and PSERS members will not have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state credit, as it is not used to increase the amount of their benefit.

As of July 1, 2006, all Plan 2/3 members in PERS, SERS and TRS will have the ability at retirement to make a one-time purchase of up to five years of additional service credit (or "air time") in order to offset the required benefit reductions for early retirement. (This ability has not been made available to members of PSERS Plan 2, who have an earlier retirement age for unreduced benefits than members of the Plans 2/3 of PERS and SERS.) There is no cost for this option because the purchase price for "air time" is the actuarial cost, which is paid in full by the member. Since the purchase occurs late in the member's career (at early retirement), the member's cost is higher than it would be early in a member's career. In any event, this benefit is relevant to the out-of-state service credit purchase issue in that members of these plans who have prior service credit from another state could use retirement moneys from those other plans to help purchase "air time."

Comparative Systems

According to a December 7, 2000, report to the Connecticut General Assembly, nearly all teacher retirement plans allow members to purchase credit for out-of-state teaching service, but most impose limits on such purchases. Among the most common are limits on the number of years of service a member can purchase, requiring the member to have a minimum number of years in the state plan before (s)he can purchase other service and limiting purchases to service for which the member will receive no other pension.

The following table summarizes two aspects of out-of-state service credit purchase provisions for teachers using Washington's comparative systems: 1) the maximum number of years that can be purchased, and 2) member cost:

State/System	Maximum Number of Years	Member Cost
CalSTRS	No limit	Years x special contribution rate with age factor x highest earnable compensation during last three years
Colorado PERA	No limit	Actuarial cost
Florida	10 years	20% of annual compensation for first full year of service in FL but not less than $12,000, plus interest @ 6.5% compounded annually from date of first annual salary until full payment; employer may pay all or part of the cost
Idaho	4 years	Actuarial cost
Iowa	No limit	Actuarial cost
Minnesota TRA	Not allowed	
Missouri PSRS	No more than total service credit earned	Highest annual salary x current contribution rate (ER + EE) = cost for one year of service credit
Ohio STRS	Lesser of 5 years or member's total years of service	50% of actuarial cost
Oregon	4 years	Actuarial cost
Wisconsin	Limited to number of years of participation in WRS at time of purchase	Actuarial cost

For additional resources, see the results of the National Council on Teacher Retirement Portability Study (1999 and 2001 update), www.nctr.org. See also the National Education Association's publication entitled "Characteristics of Large Public Education Pension Plans" (2004), www.nea.org.

2005 Bill Authorizing TRS Out-of-State Service Credit (Attached)

HB 1322/SB 5489 was introduced in the 2005 legislative session and is technically alive for the 2006 session.

Draft Fiscal Note (Attached)

Stakeholder Input (Attached)

WASHINGTON
SCHOOL
PERSONNEL
ASSOCIATION

RECEIVED
MAY 17 2004
Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning \$50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay \$34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,

Randy Hathaway
Executive Director

cc: Barb Mertens, WASA

Z-0252.1

HOUSE BILL 1322

State of Washington **59th Legislature** **2005 Regular Session**

By Representatives Fromhold, Conway, Crouse, Simpson, Linville and Chase; by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

AN ACT Relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government; adding new sections to chapter 41.32 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 2" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the sum of the employer and employee contribution rates multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The applicable employer and employee contribution rates shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to

determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the employer contribution rate multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the

second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The total amount paid by the member shall be deemed a contribution on behalf of the employer for the purpose of RCW 41.32.867, and shall not be refundable. The applicable employer contribution rate shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 3.** This act takes effect January 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**8/3/05**	**TRS Out-of-State Service Credit**

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of $50,000 would be as follows:

Plan 2 Member:	$50,000 x 11.80% x (1 + 1.08(.15)) = $6,856
Plan 3 Member:	$50,000 x 5.90% x (1 + 1.08(.15)) = $3,428

ASSUMPTIONS:

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8 percent.

We included the out-of-state service for the benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's turnover and merit increases would be based on service with TRS only.

FISCAL IMPACT:

Description:

The member would pay for the cost of the additional service, but the plan would be partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)	Teachers' Retirement System Plan 2/3 Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$5,256	$18	$5,274
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(1,427)	$14	$(1,413)

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members	
Employee	0.05%
Employer State	0.05%
New Entrants*	
Employee	n/a
Employer State	0.07%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**TRS 2/3**
2006-2007	
State:	
General Fund	$1.4
Non-General Fund	$0.0
Total State	**$1.4**
Local Government	$0.8
Total Employer	$2.2
Total Employee	$0.2
2007-2009	
State:	
General Fund	$3.3
Non-General Fund	$0.0
Total State	**$3.3**
Local Government	$1.6
Total Employer	$4.9
Total Employee	$0.4
2006-2031	
State:	
General Fund	$88.9
Non-General Fund	$0.0
Total State	**$88.9**
Local Government	$44.5
Total Employer	$133.4
Total Employee	$2.8

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Age 70½ and Opt-in/Opt-out

(August 9, 2005)

Proposal

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reelected after the effective date of the act.

Also allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

This proposal would impact all PERS, SERS, and TRS members who desire to work beyond age 70½ and all members of PERS, SERS, and TRS 2/3 who hold state elective office.

As of the 2004 valuation there were 541 vested members of PERS, SERS, and TRS who were still working at age 70½.

At last count there were 153 state elective officials who were plan members without other public employment.

Current Situation

After separating from employment for one month, PERS and SERS retirees may return to work for up to 867 hours in a calendar year before their benefit is suspended. PERS 1 retirees who separated for three months may return to work for up to 1,500 hours in a calendar year before their benefit is suspended.

After separating from employment for one month, TRS 1 retirees may return to work for up to 1,500 hours in a school year before their benefit is suspended. After separating from employment for one month, TRS 2/3 retirees may return to work for up to 867 hours in a school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

History

During the 2002 Interim, the Joint Committee on Pension Policy (JCPP) forwarded companion bills SB 5093 and HB 1209 to the 2003 legislature. These bills would have allowed members of PERS, SERS, and TRS Plans 1, 2, and 3 who have attained age 70½ and meet the vesting requirements of their plan to apply for retirement benefits without requiring that they separate from service. Such retirees would not be allowed to continue to make contributions and earn service credit. The bill passed in the Senate, but did not receive a hearing in the House.

The JCPP also forwarded companion bills HB 1201 and SB 5095 to the 2003 legislature. This legislation would have allowed PERS, SERS, TRS 2/3, or LEOFF 2 members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing in the House.

In the 2004 interim the Select Committee on Pension Policy was briefed on the issues and recommended sponsoring legislation for the 2005 session. The resulting legislation, HB 1318, had a total employer cost of $4.6 million in 2005-07, $5.5 million in 2007-09, and $82.8 million through 2030. The bill received a hearing, but did not move from the House Appropriations Committee.

During the 2004 interim the LEOFF 2 retirement board recommended legislation affecting post-LEOFF 2 employment. The bill provides a member who is otherwise "estopped" from membership in another Washington public retirement system with the option to join membership in another Washington retirement system. The bill also provides retirees who become employed in eligible non-LEOFF positions with a choice to either receive their LEOFF pension or enter membership in another plan and suspend receipt of their LEOFF pension until their employment in the other system ends. The 2005 legislature passed the legislation and it was codified as Chapter 372, Laws of 2005.

Policy Analysis

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½. When it was discovered that those rules applied to private plans, the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new policy in the post-retirement employment arena.

The opt-in/opt-out issue is one in which inconsistencies already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency, and standardize the optional membership of elected officials in a manner similar to existing TRS 1 provisions. Additionally, this proposal may support attraction and retention of state elected officials.

Executive Committee Recommendation

In the 2004 interim, the executive committee agreed to forward the subgroup proposal to the full committee for public hearing. During the 2005 interim, the executive committee forwarded this issue to the full Committee for reconsideration.

Bill (2005)

Attached

Fiscal Note (2006 Draft)

Attached

Age 70½, Opt-in Opt-out

Robert Wm. Baker
Select Committee on Pension Policy

August 23, 2005

Age 70½ Issue/Proposal

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction.

Members Impacted

- 541 PERS, SERS, and TRS members over age 70½.

Post Retirement Employment

- PERS, SERS, TRS 2/3 – may return to work for 867 hours.
- PERS 1 – may return to work for 1,500 hours in a calendar year.
- TRS 1 – may return to work for 1,500 hours in a school year.

Age 70½ History

- 2002 Interim 2003 Session (JCPP).
- SB 5093 & HB 1209.
- Allow eligible members at least age 70½ to begin receipt of retirement benefits without separating from service.
- Passed the Senate, no hearing in the House.

Age 70½ Policy Analysis

- Originally thought to be a Federal Compliance issue.
  - Only applicable to private plans.
- Evolved from earlier proposal to a post-retirement employment issue.
- Would establish new post-retirement employment policy.

Opt-in Opt-out Issue/Proposal

Allow members of TRS Plans 2 and 3, SERS, and PERS, who hold state elective office, the option at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance.

Members Impacted

- 153 state elective officials who are plan members without other public employment.

Elected Officials Provisions

- Must separate from service before receiving retirement benefits.
- TRS 1 members may begin receiving their retirement benefit while serving in state elective office.
- LEOFF 1 plan allows retired members to work for any non-LEOFF employer without a reduction in benefits.

Opt-in Opt-out History

- 2002 Interim 2003 Session (JCPP).
- HB 1201 and SB 5095.
- Allow members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance.
- Passed the Senate, no hearing in the House.

Opt-in Opt-out Policy Analysis

- Inconsistencies in the various systems and plans.
- Standardize membership provisions in a manner similar to TRS 1.
- May support attraction and retention of state elected officials.

70½, Opt-in Opt-out History

- 2004 Interim 2005 Session (SCPP).
- HB 1318.
- 70½ proposal changed to a post-retirement employment proposal while the elective official proposal remained unchanged.
- Did not move from Appropriations.

HB 1318 Fiscal Impact

- Total Employer Cost:
  - $4.6 million 2005-2007.
  - $5.5 million 2007-2009.
  - $82.8 million through 2030.

LEOFF 2 Legislation

- LEOFF 2 retiree may:
  - Join another system and suspend their LEOFF benefits, or
  - May receive their benefits and not join another system.
- Chapter 372, laws of 2005.

Next Step

- Executive Committee recommendation.

Z-0196.2

HOUSE BILL 1318

State of Washington **59th Legislature** **2005 Regular Session**

By Representatives Crouse, Conway, Simpson, Upthegrove and Linville; by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

AN ACT Relating to allowing certain members of the teachers', school employees', and public employees' retirement systems to return to work without restrictions or begin receiving their retirement allowance before separation from state elective office; amending RCW 41.32.010, 41.32.263, 41.35.030, and 41.40.023; adding a new section to chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; and adding a new section to chapter 41.40 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW to read as follows:

A member who retires on or after attainment of age seventy and one-half and enters employment with an employer at least one month after his or her accrual date may continue to receive pension payments while engaged in such service without restriction. The retiree is no longer an active member and may not make contributions, or receive service credit, for future periods of employment while receiving his or her retirement allowance. This section does not apply to any member who is a state elected official unless that member leaves elected office or is reappointed or reelected after the effective date of this act.

Sec. 4. RCW 41.32.010 and 2003 c 31 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when

computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132((~~;~~)).

(ii) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period((~~;~~)).

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(v) Any member of the teachers' retirement system plan 2 or plan 3 who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term.

(vi) Any member of the teachers' retirement system plan 2 or plan 3 who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term.

(vii) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

((~~(vi)~~)) (viii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

((~~(vii)~~)) (ix) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

((~~(viii)~~)) (x) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3

providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

Sec. 5. RCW 41.32.263 and 1991 c 35 s 41 are each amended to read as follows:

A member of the retirement system who is a member of the state legislature or a state official eligible for the combined pension and annuity provided by RCW 41.32.497((~~,~~)) or 41.32.498((~~, as now or hereafter amended~~)) shall have deductions taken from his or her salary in the amount of seven and one-half percent of earnable compensation and that service credit shall be established with the retirement system while such deductions are reported to the retirement system, unless he or she has by reason of his or her employment become a contributing member of another public retirement system in the state of Washington. Such elected official who has retired or otherwise terminated his or her public school service may then elect to terminate his or her membership in the retirement system and receive retirement benefits while continuing to serve as an elected official. A member of the retirement system who had previous service as an elected or appointed official, for which he or she did not contribute to the retirement system, may receive credit for such legislative service unless he or she has received credit for that service in another state retirement system, upon making contributions in such amounts as shall be determined by the ((~~board of trustees~~)) director.

Sec. 6. RCW 41.35.030 and 2003 c 157 s 2 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated classified employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office other than state elective office who has elected to apply for membership pursuant to (a) of this subsection and who later ((~~wishes to be~~)) is eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member ((~~wishing to end~~)) ending his or her membership under this subsection must file on a form supplied by the department a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (2)(b);

(c) Any member of the school employees' retirement system plan 2 or plan 3 who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(d) Any member of the school employees' retirement system plan 2 or plan 3 who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;

(3) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(4) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by employers

to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(5) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(6) Substitute employees, except for the purposes of the purchase of service credit under rcw 41.35.033. Upon the return or termination of the absent employee a substitute employee is replacing, that substitute employee shall no longer be ineligible under this subsection;

(7) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(8) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(9) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application.

Sec. 7. RCW 41.40.023 and 2001 c 37 s 1 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated employees and appointive and elective officials of employers, as defined in this chapter, with the following exceptions:

(1) Persons in ineligible positions;

(2) Employees of the legislature except the officers thereof elected by the members of the senate and the house and legislative committees, unless membership of such employees be authorized by the said committee;

(3)(a) Persons holding elective offices or persons appointed directly by the governor: PROVIDED, That such persons shall have the option of applying for membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office other than state elective office who has elected to apply for membership pursuant to (a) of this subsection and who later ((~~wishes to be~~)) is eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member ((~~wishing to end~~)) ending his or her membership under this subsection must file, on a form supplied by the department, a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (3)(b);

<u>(c) Any member of the public employees' retirement system who is elected to the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;</u>

<u>(d) Any member of the public employees' retirement system who is elected to a state elective position other than the state legislature has the option during a ninety-day period at the beginning of each term of office either to resume membership or to end membership in the retirement system and if otherwise eligible begin their retirement allowance. A state elected official other than a state legislator who chooses to end membership at the beginning of a term of office and begin their retirement allowance shall neither make contributions nor earn service credit for the duration of that term;</u>

(4) Employees holding membership in, or receiving pension benefits under, any retirement plan operated wholly or in part by an agency of the state or political subdivision thereof, or who are by reason of their current employment contributing to or otherwise establishing the right to receive benefits from any such retirement plan except as follows:

(a) In any case where the retirement system has in existence an agreement with another retirement system in connection with exchange of service credit or an agreement whereby members can retain service credit in more than one system, such an employee shall be allowed membership rights should the agreement so provide;

(b) An employee shall be allowed membership if otherwise eligible while receiving survivor's benefits;

(c) An employee shall not either before or after June 7, 1984, be excluded from membership or denied service credit pursuant to this subsection solely on account of: (i) Membership in the plan created under chapter 2.14 RCW; or (ii) enrollment under the relief and compensation provisions or the pension provisions of the volunteer fire fighters' relief and pension fund under chapter 41.24 RCW;

(d) Except as provided in RCW 41.40.109, on or after July 25, 1999, an employee shall not be excluded from membership or denied service credit pursuant to this subsection solely on account of participation in a defined contribution pension plan qualified under section 401 of the internal revenue code;

(e) Employees who have been reported in the retirement system prior to July 25, 1999, and who participated during the same period of time in a defined contribution pension plan qualified under section 401 of the internal revenue code and operated wholly or in part by the employer, shall not be excluded from previous retirement system membership and service credit on account of such participation;

(5) Patient and inmate help in state charitable, penal, and correctional institutions;

(6) "Members" of a state veterans' home or state soldiers' home;

(7) Persons employed by an institution of higher learning or community college, primarily as an incident to and in furtherance of their education or training, or the education or training of a spouse;

(8) Employees of an institution of higher learning or community college during the period of service necessary to establish eligibility for membership in the retirement plans operated by such institutions;

(9) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession;

(10) Persons appointed after April 1, 1963, by the liquor control board as agency vendors;

(11) Employees of a labor guild, association, or organization: PROVIDED, That elective officials and employees of a labor guild, association, or organization which qualifies as an employer within this chapter shall have the option of applying for membership;

(12) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(13) Persons employed by or appointed or elected as an official of a first class city that has its own retirement system: PROVIDED, That any member elected or appointed to an elective office on or after April 1, 1971, shall have the option of continuing as a member of this system

in lieu of becoming a member of the city system. A member who elects to continue as a member of this system shall pay the appropriate member contributions and the city shall pay the employer contributions at the rates prescribed by this chapter. The city shall also transfer to this system all of such member's accumulated contributions together with such further amounts as necessary to equal all employee and employer contributions which would have been paid into this system on account of such service with the city and thereupon the member shall be granted credit for all such service. Any city that becomes an employer as defined in RCW 41.40.010(4) as the result of an individual's election under this subsection shall not be required to have all employees covered for retirement under the provisions of this chapter. Nothing in this subsection shall prohibit a city of the first class with its own retirement system from: (a) Transferring all of its current employees to the retirement system established under this chapter, or (b) allowing newly hired employees the option of continuing coverage under the retirement system established by this chapter.

Notwithstanding any other provision of this chapter, persons transferring from employment with a first class city of over four hundred thousand population that has its own retirement system to employment with the state department of agriculture may elect to remain within the retirement system of such city and the state shall pay the employer contributions for such persons at like rates as prescribed for employers of other members of such system;

(14) Employees who (a) are not citizens of the United States, (b) do not reside in the United States, and (c) perform duties outside of the United States;

(15) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(16) Employees who are citizens of the United States and who reside and perform duties for an employer outside of the United States: PROVIDED, That unless otherwise excluded under this chapter or chapter 41.04 RCW, the employee may apply for membership (a) within thirty days after employment in an eligible position and membership service credit

shall be granted from the first day of membership service, and (b) after this thirty-day period, but membership service credit shall be granted only if payment is made for the noncredited membership service under RCW 41.50.165(2), otherwise service shall be from the date of application;

(17) The city manager or chief administrative officer of a city or town, other than a retiree, who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from date of their appointment to such positions. Persons serving in such positions as of April 4, 1986, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1986, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the system under this section shall receive a refund of the member's accumulated contributions.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(18) Persons serving as: (a) The chief administrative officer of a public utility district as defined in RCW 54.16.100; (b) the chief administrative officer of a port district formed under chapter 53.04 RCW; or (c) the chief administrative officer of a county who serves at the pleasure of an appointing authority: PROVIDED, That such persons shall have the option of applying for membership within thirty days from the date of their appointment to such positions. Persons serving in such positions as of July 25, 1999, shall continue to be members in the retirement system unless they notify the director in writing prior to December 31, 1999, of their desire to withdraw from membership in the retirement system. A member who withdraws from membership in the system under this section shall receive a refund of the member's accumulated contributions upon termination of employment or as otherwise consistent with the plan's tax qualification status as defined in internal revenue code section 401.

Persons serving in such positions who have not opted for membership within the specified thirty days, may do so at a later date by paying the amount required under RCW 41.50.165(2) for the period from the date of their appointment to the date of acceptance into membership;

(19) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by local governments to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(20) Beginning on July 22, 2001, persons employed exclusively as trainers or trainees in resident apprentice training programs operated by housing authorities authorized under chapter 35.82 RCW, (a) if the trainer or trainee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or (b) if the employee is a member of a Taft-Hartley retirement plan.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**8/9/05**	**Age 70 ½ and Opt in/Opt Out**

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System, School Employee's Retirement System, and Teachers Retirement System by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction; upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, or are re-elected after the effective date of the act.

The bill also allows state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

After a one-month separation, PERS, SERS, and TRS 2/3 retirees may return to work for 867 hours per calendar year or school year before their benefit is suspended. PERS 1 members may return to work after a 3-month separation and work up to 1,500 hours per calendar year before their benefit is suspended. TRS 1 members may return to work after a one-month separation and work for up to 1,500 hours per school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

MEMBERS IMPACTED:

We estimate that potentially all active members in these systems could be affected by the age 70 1/2 portion of this bill. Active members currently over age 70 1/2 would be impacted on the effective date of the bill. This includes 375 out of 156,256 active members in PERS, 31 out of 66,634 in TRS, and 135 out of 49,854 in SERS.

We estimate that relatively few members in these systems could be affected by the opt-in/opt-out portion of this bill, although nearly all members could potentially become elected officials. The opt-in/opt-out portion of the bill would impact the current state elected officials in the systems if they are reelected following the effective date. This includes 148 active members in PERS, 1 in TRS (not including 4 in TRS 1 who already have the opt-in/opt-out provision), and 0 in SERS.

We estimate that a typical member impacted by the age 70 1/2 provision of this bill would receive a benefit of about $11,700 per year, but would give up additional benefit accruals of about $1,000 per year. For example, a PERS member who retired at age 74 with 19 years of service would receive an annual benefit of $13,200; waiting one additional year to retire would result in an annual benefit of $14,400. A typical SERS member who retired at age 74 with 12 years of service would receive an annual benefit of $4,600; waiting one additional year to retire would result in an annual benefit of $5,200. The impact on long service members over age 70 1/2, and not subject to the 30-year service cap, is greater than the impact on short service members.

ASSUMPTIONS:

Our current retirement rate assumptions have all members retiring at age 70 or earlier. The members over 70 1/2 who continue working after we have assumed they will retire, typically produce an actuarial experience gain to the system. In general, the benefits earned for each year of additional service and increases in pay after age 70 are not as valuable as the retirement benefits that could have been received in the year. This is especially true for Plan 1 members who already have hit the 30-year maximum on service.

To determine the cost of the age 70 1/2 provision, we started with an assumption change for the retirement rates at age 70 and beyond. For PERS and SERS, we replaced our 100% retirement assumption at age 70 with 25% per year from age 70 to 81 and 100% at age 82. We did not change the rates before age 70. For TRS, we did not change our 100% assumption at age 70, because the number of active TRS members working past age 70 is not significant compared to PERS and SERS, and the oldest active TRS member is 78, compared to 88 in both PERS and SERS. So we would not expect any significant cost impact for TRS.

For PERS and SERS, we compared the costs of the plans with the new retirement assumption to the costs using an alternative retirement assumption. We increased the 25% rate to 37.5% as an estimate of how many more active members over age 70 1/2 would retire after the bill is effective.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	**PERS**	$ 28,099	$ 19	$ 28,118
(The Value of the Total Commitment to all Current	**TRS**	$ 15,616	$ 0	$ 15,616
Members)	**SERS**	$ 2,126	$ 1	$ 2,127
Unfunded Actuarial Accrued Liability	**PERS**	$ 2,563	$ 8	$ 2,571
(The Portion of the Plan 1 Liability that is Amortized at	**TRS**	$ 1,415	$ 0	$ 1,415
2024)	**SERS**	$ N/A	$ N/A	$ N/A
Unfunded Liability (PBO)	**PERS**	$ (673)	$ 18	$ (655)
(The Value of the Total Commitment to all Current	**TRS**	$ (235)	$ 0	$ (235)
Members Attributable to Past Service)	**SERS**	$ (439)	$ 1	$ (438)

Increase in Contribution Rates:
(Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee	0.02%	0.00%	0.01%
Employer State*	0.03%	0.00%	0.02%
New Entrants**			
Employee	0.01%	0.00%	0.00%
Employer State	0.01%	0.00%	0.00%

** 0.01% of the total employer rate increase goes toward amortizing the Plan 1 UAAL.*

***Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2006-2007				
State:				
General Fund	$0.3	$0.0	$0.1	$0.4
Non-General Fund	$0.6	$0.0	$0.0	$0.6
Total State	**$0.9**	**$0.0**	**$0.1**	**$1.0**
Local Government	$0.9	$0.0	$0.1	$1.0
Total Employer	$1.8	$0.0	$0.2	$2.0
Total Employee	$0.9	$0.0	$0.0	$0.9
2007-2009				
State:				
General Fund	$0.8	$0.0	$0.2	$1.0
Non-General Fund	$1.6	$0.0	$0.0	$1.6
Total State	**$2.4**	**$0.0**	**$0.2**	**$2.6**
Local Government	$2.2	$0.0	$0.4	$2.6
Total Employer	$4.6	$0.0	$0.6	$5.2
Total Employee	$2.2	$0.0	$0.1	$2.3
2006-2031				
State:				
General Fund	$13.9	$0.0	$2.2	$16.1
Non-General Fund	$25.4	$0.0	$0.0	$25.4
Total State	**$39.3**	**$0.0**	**$2.2**	**$41.5**
Local Government	$35.4	$0.0	$3.6	$39.0
Total Employer	$74.7	$0.0	$5.8	$80.5
Total Employee	$31.5	$0.0	$0.6	$32.1

State Actuary's Comments:

The postponed retirements after age 70 1/2 currently produce actuarial gains. The age 70 1/2 portion of the bill would reduce these gains. The opt-in/opt-out provision of the bill would apply to a small group of members and the associated cost would be insufficient to increase rates.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same methods and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Membership data, assets, and Fiscal Budget Determinations were based on preliminary 2004 data.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: The retirement rate assumptions for PERS and SERS were changed. The retirement rate of 100% at age 70 was changed to 25% from age 70 to 81 and 100% at age 82.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Plan 3 Vesting

Laura Harper
Select Committee on Pension Policy

August 23, 2005

Issue

Should the required length of service for vesting in the Defined Benefit (DB) portion of the PERS, SERS and TRS Plans 3 be reduced from ten to five years?

Members Impacted

- As of the most recent actuarial valuation, there were 58,101 Plan 3 members who were not vested.
- Any of these non-vested members could be affected unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.

Current Situation

- Members become vested in the DB portion of the Plans 3 after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54.
- Plan 3 members are immediately vested in the Defined Contribution (DC) portion of their Plan.

History

- Proposal to lower the vesting period has been considered and rejected during the last three legislative sessions.
  - 2003 bill passed the House.
  - 2004 bill passed the Senate.
  - 2005 bill was modified to lower the vesting period only for those who are age 45 and older; passed the House but not the Senate.

Why 10-year vesting?

- In the Plans 3, ten-year vesting applies only to employer dollars; employee dollars are subject to immediate vesting.
- Compare to Plans 2, in which both kinds of dollars are subject to five-year vesting.
- Ten-year vesting allows for a defined benefit of 10% of Average Final Salary (AFC) in the Plans 3; five-year vesting allows 10% of AFC in the Plans 2.

Plan 3 Retention Policies

- Shorter vesting periods support attraction of new employees and longer vesting periods support retention of current employees.
- The higher the entry age, the greater the % of the future benefit forfeited at separation due to failure to vest.
- Those with 20 years get "inflation protector" of 3% per year.

Comparisons

- Ten-year vesting in the Plans 3 is the longest among plans administered by this state.
- Plans 1 and 2, which are all DB and not hybrid plans, have five-year vesting.
- National surveys show that more public pension plans use five-year vesting.
- National trend is toward five-year vesting.

Addressing the Cost

- Alternative options to the SCPP's 2005 bill would lower the vesting period from ten to five years for active members following the attainment of a certain age.
  - Current threshold for five-year vesting is 54.
  - Handout compares costs for five-year vesting if age 50 or over and if age 45 or over.

Questions for the Committee

- Include Plan 3 Vesting in 2006 legislative recommendations?
- If so, which version?
  - Original SCPP version (no threshold)?
  - Substitute House Bill version (age 45+)?
  - Less expensive version (age 50+)?

Plan 3 Vesting

(August 1, 2004)

Issue

Reduce the required length of service for vesting in the Defined Benefit (DB) portion of the PERS, SERS, and TRS Plans 3 from ten years to five years.

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Members Impacted

As of the most recent valuation, there were 58,101 Plan 3 members who were not vested. Non-vested members included those who had less than ten years of service; those who were not vested in Plan 2 on July 1, 1996, in TRS; September 1, 2000, in SERS; or June 1, 2003, in PERS; and those who did not have five years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.

Current Situation

New Plan 3 members of TRS, SERS, and PERS are vested in the DB portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the Defined Contribution (DC) portion of their Plan.

History

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the DB vesting period in the Plans 3 from ten to five years. The bill passed the House, but was not heard in the Senate. In 2004, similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate, but died in House Appropriations. In 2005, the SCPP recommended SB 5517/HB 1320, which would have made the same change to Plan 3 vesting as had been proposed in 2003 and 2004. A substitute bill passed the House that would have lowered the vesting period from ten to five years only for those members who are age 45 and older. This modification made the bill less costly, however, the substitute bill did not receive a hearing in Senate Ways and Means.

Policy Analysis

The Plans 3 are hybrid plans. The DB portion of these plans (the portion to which the ten-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: 1% x Average Final Compensation (AFC) x years of service credit. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the DC portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10 percent of AFC upon vesting (5 years × 2% per year). This 10 percent standard was used for the DB portion of the Plans 3. Setting the vesting period in the Plans 3 to ten years guaranteed vested members 10 percent of their AFC as a minimum defined benefit (10 years x 1% per year).

In the design of the Plans 3, the long vesting period for the DB portion of the pension was offset by the fact that Plan 3 members were immediately vested in the DC portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the DB portion of Plan 3 for members who entered the plan at various ages and separated from service after five years. These examples assume an average final compensation of $30,000 and an annual inflation rate of 3.5 percent.

Future Value of Plan 3 Benefit, Adjusted for 3.5 percent Assumed Inflation
(Defined Benefit payable at 65 = 1% x $30,000 x 5 years of service)

Entry Age	Age at Separation	DB Benefit at 65	Future Value*	% of DB
25	30	$1,500	$450	30%
35	40	$1,500	$635	42%
45	50	$1,500	$895	60%
55	60	$1,500	$1,263	84%

**Reduced for 3.5 percent assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited due to failure to vest is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the ten-year vesting period and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of current employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least 20 service-credit years receive the additional benefit of an "inflation protector." These members receive an increase in the DB portion of their retirement allowance of 3 percent per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

Comparison with Washington Plans and Other States

The ten-year vesting period for the DB portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all DB and not hybrid plans, have five-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a ten-year vesting period. In the **2002 survey from the Public Pension Coordinating Council** covering 276 public retirement plans, a total of 96 plans had vesting requirements of ten years or more. More than 40 of those plans were administered by 25 states or territories in addition to Washington. In comparison, 132 plans had vesting requirements of five years or less. The survey results are attached.

Results of the **Wisconsin Legislative Councils' 2002 Comparative Study of Major Public Employee Retirement Systems** are also attached. According to this report, in 2002 a total of 60 out of 85 plans required five years or less of service to vest, with an increase of six plans in this category since the 2000 report. The number of plans in 2002 that required ten years of service to vest decreased by five plans from the 2000 report and by 20 plans from the 1990 report.

Options

The proposal to lower the vesting period for the DB portion of the Plans 3 from ten to five years has been considered and rejected during the last three legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost.

An option for lowering the cost was explored in the development of last session's substitute bill, which proposed a five-year vesting in the higher age bracket (i.e. those 45 and over) when the vesting period is more likely to affect employment behavior. Currently five-year vesting is available in the Plans 3 if 12 months of a member's service is earned after attaining age 54. That age could certainly be lowered to a threshold age of 50 or 45. These options were priced in November 2004 and the results are attached in the document entitled **Plan 3 Vesting Supplemental Summary**.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the DB component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the DB portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

Stakeholder Input

Letters requesting that Plan 3 vesting be considered by the SCPP during the 2004 and/or 2005 interim are attached.

Executive Committee Recommendation

At its July 19, 2005, meeting the Executive Committee considered whether to bring this issue back before the full committee. At that time it was decided that the full SCPP should consider the issue at its August 23, 2005, meeting.

Bills

Copies of the SCPP's 2005 bill and the House's substitute for the bill are attached. This SCPP's bill would reduce the required length of service for vesting in the DB portion of PERS, SERS, and TRS Plans 3 from ten years to five years. The substitute bill would do the same, but only for those who are age 45 and older.

Fiscal Note

The two fiscal notes for the 2005 bills are attached. Each bill would increase contribution rates in the PERS, TRS, and SERS Plans 2 and Plans 3, although the substitute bill would do so to a lesser extent. It should be noted that if passed, the cost of this Plan 3 benefit enhancement would be shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan□□(Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund – Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE

0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE
0314A	CITY OF BISMARK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	386	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICEFOR PLAN A; 4YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,635	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,858	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan)Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE

0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS
0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan□□(Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,400	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	286,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE

0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE
0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	18,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	968	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Assocation	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE

0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	8,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS
0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AG
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	71/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	161	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	Immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	

0650A	Fairfax County Water Authority Retirement Plan	0
0655A	Spokane Employees' Retirement Plan	0
	Number of plans with vesting requirements of 10 or more years	96
	Active members of plans with vesting requirements of 10 or more years	3,662,540
	Number of plans with vesting requirements of less than 10 years	172
	Active members of plans with vesting requirements of less than 10 years	5,988,342
	Number of plans with vesting requirements of 5 years or less	132
	Active members of plans with vesting requirements of 5 years or less	4,908,400

* About 50,000 members in Tier 2

WISCONSIN LEGISLATIVE COUNCIL

2002 COMPARATIVE STUDY OF MAJOR PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Prepared by:

William Ford, Senior Staff Attorney
Wisconsin Legislative Council

December 2003

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PART III
CONTRIBUTION AND VESTING REQUIREMENTS

A. INTRODUCTION

Chart 3, on pages 18 and 19, shows the vesting period, the employee contribution rate, and the employer contribution rate for each of the 85 plans in the report. The contribution rates are shown as a percentage of salary.

B. VESTING

The term "vesting" refers to an employee's right, after satisfying some minimum service requirement, to receive a pension benefit regardless of whether the employee remains in a job covered by the pension plan. Vesting requirements for the plans included in the 2002 Report are displayed in the last column of Chart 3. The following table shows the changes that have occurred since 2000 in the plans covered by the report:

	2000 Report	2002 Report
Immediate vesting	2 plans	2 plans
Vesting after 3 years	6 plans	6 plans
Vesting after 4 years	5 plans	5 plans
Vesting after 5 years	42 plans	47 plans
Vesting after 8 years	4 plans	4 plans
Vesting after 10 years	25 plans	20 plans
Graded or varying	1 plan	1 plan
TOTAL	85 plans	85 plans

In 2002, a total of 60 plans, or 71% of the 85 plans in the report, require five years or less years of service to vest. This is an increase of 6 plans since the 2000 Report. The trend appears to be towards vesting periods of 5 years or less, perhaps reflecting federal vesting requirements that apply to private sector pension plans. The number of plans in 2002 that require 10 years of service to vest has decreased by 5 plans from the 2000 Report and by 20 plans from the 1990 report.

B. EMPLOYEE CONTRIBUTIONS

Large private sector corporations that provide pension plans frequently do not require employee contributions to the primary plan, but frequently also provide supplemental profit-sharing or savings plans which allow employees to contribute to the plan and receive an employer "match" to some or all of the contribution. Conversely, most public employee pension plans at least nominally require employees to contribute a certain percentage of their salary to the plan, although, as will be discussed below, some public employee pension plans provide for employer "pick-up" of the employee contribution. In addition, secondary savings plans for public

WASHINGTON
SCHOOL
PERSONNEL
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MAY 17 2004
Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning $50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay $34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,

Randy Hathaway
Executive Director

cc: Barb Mertens, WASA

WPEA

Washington Public Employees Association, UFCW Local 365

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May 23, 2005

TO: Senator Karen Fraser, Chair
Members of the Select Committee on Pension Policy
State Actuary Staff

FROM: Lynn Maier, Governmental Relations Director

SUBJECT: Requested Interim Study Issues

As you develop a potential interim work plan, I respectfully request that you consider issues important to WPEA outlined below.

Of most significance is the directive given to the SCPP via passage of HB 1044 to study options regarding the liability associated with future gain-sharing distributions given the legislature's choice to suspend gain-sharing for the 2005-07 biennium.

As you may recall, WPEA joined a host of other employee organizations in strong support of the package recommended to the legislature by the SCPP providing for a modified Rule of 90 in Plans 2 and 3 and modest improvements in Plan 1 in lieu of gain-sharing. We remain steadfast in our support of the original package and in our desire to achieve a viable trade-off for the loss of gain-sharing. And, we urge Committee members to revisit this issue with vigor with the intent of developing a comparable set of recommendations to the 2006 legislature. We also urge the SCPP to revisit the issue of 5-year vesting in Plan 3.

In addition to the above, we would appreciate SCPP consideration this interim of the following issues:

- Inclusion of DNR Natural Resource Investigators, DNR Forest Crew Supervisors and Deputy State Fire Marshals in the Public Safety Employees Retirement System (PSERS)
- Military service credit in PERS 2 and 3 comparable with PERS 1 (WPEA initiated HB 1522/SB 5521)
- Plan 2 access to state health plans at age 55 with at least 10 years of service on *separation* from employment (WPEA initiated HB 1520/SB 5520)

Regarding our request for additions to PSERS, we believe that the duties of the job classes enumerated meet the intent of the enabling legislation regarding physical risk and public protection of lives and property. PSERS goes into effect in July 2006, thus it is imperative that attention be given to our request to ensure consideration in the next legislative session.

Thank you for your consideration of these issues. I look forward to working with you during the interim.

Z-0180.1

HOUSE BILL 1320

State of Washington 59th Legislature 2005 Regular Session

By Representatives Alexander, Conway, Crouse, Simpson, Upthegrove and Chase; by request of Select Committee on Pension Policy

Read first time 01/20/2005. Referred to Committee on Appropriations.

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~:~~

~~(a)~~)) <u>c</u>ompleted ((~~ten~~)) <u>five</u> service credit years((~~, or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) <u>or c</u>ompleted five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817((~~,~~))
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have

the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 2. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~,~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~, or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510((~~,~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 3. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has((~~,~~

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~, or~~

~~(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or~~

~~(c)~~)) or completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795((~~,~~))
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

--- **END** ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**8/3/05**	**Plan 3 Vesting**

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, 58,101 out of 98,587 Plan 3 members had less than 10 years of service or were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to leave public employment with between 5 to 10 years of service and before they earned 12 months of service after age 54.

System / Plan	Vested	Non-Vested
PERS 3	9,447	10,408
TRS 3	19,979	29,323
SERS 3	11,060	18,370

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**PERS 2/3**	$ 15,280	$ 5	$ 15,285
	TRS 2/3	$ 5,256	$ 11	$ 5,267
	SERS 2/3	$ 2,126	$ 7	$ 2,133
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)		N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS 2/3**	$ (2,927)	$ 2	$ (2,925)
	TRS 2/3	$ (1,427)	$ 6	$ (1,421)
	SERS 2/3	$ (439)	$ 4	$ (435)

Increase in Contribution Rates:
(Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee	0.01%	0.03%	0.05%
Employer State	0.01%	0.03%	0.05%
New Entrants*			
Employee	0.04%	N/A	N/A
Employer State	0.04%	0.06%	0.18%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2006-2007				
State:				
General Fund	$0.2	$0.9	$0.4	$1.5
Non-General Fund	$0.4	$0.0	$0.0	$0.4
Total State	**$0.6**	**$0.9**	**$0.4**	**$1.9**
Local Government	$0.5	$0.5	$0.6	$1.6
Total Employer	$1.1	$1.4	$1.0	$3.5
Total Employee	$0.7	$0.1	$0.2	$1.0
2007-2009				
State:				
General Fund	$0.6	$2.1	$1.1	$3.8
Non-General Fund	$1.1	$0.0	$0.0	$1.1
Total State	**$1.7**	**$2.1**	**$1.1**	**$4.9**
Local Government	$1.5	$1.1	$1.7	$4.3
Total Employer	$3.2	$3.2	$2.8	$9.2
Total Employee	$1.9	$0.2	$0.4	$2.5
2006-2031				
State:				
General Fund	$24.0	$70.7	$48.9	$143.6
Non-General Fund	$46.4	$0.0	$0.0	$46.4
Total State	**$70.4**	**$70.7**	**$48.9**	**$190.0**
Local Government	$63.8	$35.2	$73.7	$172.7
Total Employer	$134.2	$105.9	$122.6	$362.7
Total Employee	$70.3	$1.5	$3.0	$74.8

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter – Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Rate increases are based on rates that exclude the cost of future gain-sharing benefits.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

H-2079.1

SUBSTITUTE HOUSE BILL 1320

State of Washington **59th Legislature** **2005 Regular Session**

By House Committee on Appropriations (originally sponsored by Representatives Alexander, Conway, Crouse, Simpson, Upthegrove and Chase; by request of Select Committee on Pension Policy)

READ FIRST TIME 02/24/05.

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; amending RCW 41.32.875, 41.35.680, and 41.40.820; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age ((~~fifty-four~~)) forty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be

eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 2. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age ((~~fifty-four~~)) forty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed

according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 3. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age ((~~fifty-four~~)) <u>forty-four</u>; or

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>NEW SECTION.</u> **Sec. 4.** If specific funding for the purposes of this act, referencing this act by bill or chapter number, is not provided by

June 30, 2005, in the omnibus appropriations act, this act is null and void.

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Plan 3 Vesting
Supplemental Summary

Costs (in Millions):	Plan 3 Vesting Threshold age = 50 PERS	TRS	SERS	Total	Plan 3 Vesting Threshold age = 45 PERS	TRS	SERS	Total
Increase in Contribution Rates								
Current Employee (Plan 2 only)	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
Current Employer	0.00%	0.01%	0.02%		0.00%	0.01%	0.04%	
New Entrants Employee (Plan 2 only)*	0.01%	N/A	N/A		0.01%	N/A	N/A	
New Entrants Employer *	0.01%	0.01%	0.05%		0.01%	0.02%	0.11%	
2006-2007								
State:								
General Fund	$0.0	$0.3	$0.1	$0.4	$0.0	$0.3	$0.3	$0.6
Non-General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.3**	**$0.1**	**$0.4**	**$0.0**	**$0.3**	**$0.3**	**$0.6**
Local Government	$0.1	$0.1	$0.2	$0.4	$0.1	$0.2	$0.4	$0.7
Total Employer	$0.1	$0.4	$0.3	$0.8	$0.1	$0.5	$0.7	$1.3
Total Employee	$0.1	$0.0	$0.1	$0.2	$0.1	$0.0	$0.2	$0.3
2006-2031								
State:								
General Fund	$5.5	$13.9	$13.9	$33.3	$5.5	$23.7	$30.6	$59.8
Non-General Fund	$10.6	$0.0	$0.0	$10.6	$10.6	$0.0	$0.0	$10.6
Total State	**$16.1**	**$13.9**	**$13.9**	**$43.9**	**$16.1**	**$23.7**	**$30.6**	**$70.4**
Local Government	$14.8	$7.0	$21.1	$42.9	$14.8	$11.7	$45.9	$72.4
Total Employer	$30.9	$20.9	$35.0	$86.8	$30.9	$35.4	$76.5	$142.8
Total Employee	$15.6	$0.0	$1.2	$16.8	$15.6	$0.0	$2.4	$18.0

**The increases in contribution rates for future new entrants are based on the increase in the Entry Age Normal Cost. This rate change is applied to future new entrant payroll and is used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*